LORNEX CAPITAL INC.

Condensed Consolidated Interim Financial Statements (Unaudited)

Three Months Ended March 31, 2011 and 2010

(Expressed in Canadian Dollars)

LORNEX CAPITAL INC.

(the “Company”)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three months ended March 31, 2011 and 2010

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

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

June 10, 2011

LORNEX CAPITAL INC.

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

	March 31, 2011	December 31, 2010 (Note 11)	January 1, 2010 (Note 11)
	$	$	$
Assets			
Current			
Cash	52,261	29,443	19,915
Short-term investments (Note 3)	800,000	900,000	275,000
Amounts receivable (Note 4)	15,194	13,791	4,513
Prepaid expenses and deposits	54,664	58,932	2,000
	922,119	1,002,166	301,428
Property, plant and equipment (Note 5)	3,824	4,134	-
Reclamation deposit (Note 6)	-	-	5,000
Mineral property interests (Note 7)	41,936	35,168	25,000
Total assets	967,879	1,041,468	331,428
Liabilities			
Current			
Accounts payable and accrued liabilities	17,613	24,255	21,630
Shareholders' equity			
Share capital (Note 8)	3,628,016	3,619,811	2,633,874
Share subscriptions (Note 8)	50,000	-	-
Reserves	389,851	396,177	388,804
Deficit	(3,117,601)	(2,998,775)	(2,712,880)
Total equity	950,266	1,017,213	309,798
Total liabilities and shareholders' equity	967,879	1,041,468	331,428

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

LORNEX CAPITAL INC.

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

Three months ended March 31,	2011	2010
	$	$
Expenses:		
Amortization	310	-
Bank charges and interest	135	151
Consulting fees	3,000	7,850
Management fees	16,200	25,200
Office, rent and administration	20,561	19,955
Professional fees	2,972	378
Regulatory fees	5,200	13,710
Stock-based compensation (Note 8)	(871)	(2,753)
Transfer agent	613	1,046
Travel, promotion and shareholder communications	73,251	674
	121,371	66,211
Loss before other item	(121,371)	(66,211)
Interest income	2,545	297
Loss and comprehensive loss for the period	(118,826)	(65,914)
Loss per share		
Basic and diluted	(0.01)	(0.01)

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

LORNEX CAPITAL INC.

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

		Share capital		Reserves				
	Notes	Number of shares	Amount	Stock options	Warrants	Share subscriptions	Deficit	Total
		#	$	$	$	$	$	$
Balance, January 1, 2010	11	**8,872,500**	**2,633,874**	**388,804**	-	-	**(2,712,880)**	**309,798**
Comprehensive loss for the period		-	-	-	-	-	(65,914)	(65,914)
Private placement		3,426,667	1,028,000	-	-	-	-	1,028,000
Share issue costs		-	(80,350)	-	-	-	-	(80,350)
Finder's fees		53,317	15,995	-	-	-	-	15,995
Finder's warrants issued		-	(6,666)	-	6,666	-	-	-
Stock-based compensation		-	-	(2,753)	-	-	-	(2,753)
Balance, March 31, 2010		**12,352,484**	**3,590,853**	**386,051**	**6,666**	**-**	**(2,778,794)**	**1,204,776**
Comprehensive loss for the period		-	-	-	-	-	(219,981)	(219,981)
Share issue costs		-	(198)	-	-	-	-	(198)
Exercise of options		163,255	17,958	-	-	-	-	17,958
Stock-based compensation		-	-	14,658	-	-	-	14,658
Fair value of stock options transferred to share capital upon exercise		-	11,198	(11,198)	-	-	-	-
Balance, December 31, 2010		**12,515,739**	**3,619,811**	**389,511**	**6,666**	**-**	**(2,998,775)**	**1,017,213**
Comprehensive loss for the period		-	-	-	-	-	(118,826)	(118,826)
Share subscriptions		-	-	-	-	50,000	-	50,000
Exercise of options		25,000	2,750	-	-	-	-	2,750
Stock-based compensation		-	-	(871)	-	-	-	(871)
Fair value of stock options transferred to share capital upon exercise		-	5,455	(5,455)	-	-	-	-
Balance, March 31, 2011		**12,540,739**	**3,628,016**	**383,185**	**6,666**	**50,000**	**(3,117,601)**	**950,266**

LORNEX CAPITAL INC.
Condensed Consolidated Interim Statements of Cash Flows (Unaudited)
(Expressed in Canadian Dollars)

Three months ended March 31,	2011	2010
	$	$
Operating activities:		
Loss for the period	(118,826)	(65,914)
Adjustments for non-cash items:		
Amortization	310	-
Stock-based compensation	(871)	(2,753)
Changes in non-cash working capital items:		
Amounts receivable	(1,403)	352
Prepaid expenses and deposits	4,268	-
Accounts payable and accrued liabilities	(6,642)	(4,284)
Net cash used in operating activities	(123,164)	(72,599)
Investing activities:		
Short-term investments	100,000	-
Mineral property interests	(6,768)	-
Net cash used in investing activities	93,232	-
Financing activities:		
Shares issued for cash	2,750	1,028,000
Share subscriptions	50,000	-
Share issue costs	-	(64,355)
Net cash from financing activities	52,750	963,645
Increase in cash	22,818	891,046
Cash, beginning of period	29,443	19,915
Cash, end of period	52,261	910,961
Supplemental cash flow information:		
Non-cash financing activities:		
Shares and warrants issued for services - share issue costs (Note 8)	-	22,661
Fair value of stock options transferred to share capital upon exercise	5,455	-

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

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 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 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.

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. Significant Accounting Policies

The financial statements were authorized for issue on June 10, 2011 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Statement of compliance and conversion

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), specifically IFRS 1 - "*First Time Adoption of International Financial Reporting Standards*" and with International Accounting Standard 34 – "*Interim Financial Reporting*". The consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2010.

The disclosures related to the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS are provided in Note 11.

(b) Basis of preparation and consolidation

The condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted. The condensed consolidated interim 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 have been eliminated on consolidation.

The condensed consolidated interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable.

2. Significant Accounting Policies - continued

(c) Use of estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments. Actual results may differ from those estimates and judgments.

(d) Functional and presentation of foreign currency

The presentation currency of the Company and the functional currency of the Company and its subsidiary is the Canadian dollar.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(f) Short-term investments

Short-term investments consist of investments in guaranteed investment certificates with maturities of more than three months and less than one year.

(g) Property, plant and equipment and revaluation method

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income and comprehensive income during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation and amortization are calculated on a declining-balance basis to write off the cost of the assets to their residual values over their estimated useful lives. The depreciation and amortization rates applicable to each category of property, plant and equipment are as follows:

Computer hardware and software	30%

2. Significant Accounting Policies - continued

(h) Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(i) Impairment of assets

The carrying amount of the Company's assets (which include property, plant and equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

(j) Share capital

The proceeds from the exercise of stock options or warrants together with amounts previously recorded over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value on the date of issue.

2. Significant Accounting Policies - continued

(k) Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(l) Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

(m) Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company’s intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

2. Significant Accounting Policies - continued

(m) Financial instruments - continued

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

(n) Income taxes

(i) Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(Expressed in Canadian Dollars)

2. Significant Accounting Policies - continued

(o) Future changes in accounting policies

(i) Financial instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") on November 12, 2009, and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized costs or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

(ii) Financial instruments: Disclosures

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011.

3. Short-term Investments

March 31, 2011	Maturity	Principal	Accrued interest
		$	$
Guaranteed Investment Certificates			
Prime less 1.80% annual interest rate	May 5, 2011	800,000	7,425

December 31, 2010	Maturity	Principal	Accrued interest
		$	$
Guaranteed Investment Certificates			
Prime less 1.85% annual interest rate	March 22, 2011	100,000	502
Prime less 1.80% annual interest rate	May 5, 2011	800,000	5,058
		900,000	5,560

4. Amounts Receivable

	March 31, 2011	December 31, 2010
	$	$
Interest receivable	7,425	5,560
GST/HST recoverable	7,769	8,231
	15,194	13,791

(Expressed in Canadian Dollars)

5. Property, Plant and Equipment

	Computer hardware
	$
Costs:	
Balance, January 1, 2010	-
Additions	4,864
Disposals	-
Balance, March 31, 2011 and December 31, 2010	4,864
Depreciation:	
Balance, January 1, 2010	-
Charge for the period	730
Eliminated on disposal	-
Balance, December 31, 2010	730
Charge for the period	310
Balance, March 31, 2011	1,040
Carrying amounts:	
January 1, 2010	-
December 31, 2010	4,134
March 31, 2011	3,824

6. Reclamation Deposits

	$
Balance, January 1, 2010	5,000
Write-down of reclamation deposit	(5,000)
Balance, March 31, 2011 and December 31, 2010	-

As at March 31, 2011, the Company had reclamation deposits with the Province of British Columbia totalling $Nil (December 31, 2010 - $Nil) with regard to the Rosswoll Property.

During the year ended December 31, 2007, the Company terminated the option on the Rosswoll Property. The Company determined that it will not carry out any reclamation work on the property and wrote-off reclamation deposit of $5,000 during the year ended December 31, 2010.

(Expressed in Canadian Dollars)

7. Mineral Property Interests

	$
Balance, January 1, 2010	25,000
Exploration:	
Consulting and geological fees	982
Equipment and related costs	2,609
Wages and contract work	5,577
Property maintenance costs	1,000
Balance, December 31, 2010	35,168
Exploration:	
Consulting and geological fees	423
Wages and contract work	3,388
Property maintenance costs	2,957
Balance, March 31, 2011	41,936

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.

8. Share Capital and Reserves

(a) Authorized

An unlimited number of common shares without par value.

(b) Issued share capital

At March 31, 2011, there were 12,540,739 issued and fully paid common shares (December 31, 2010 - 12,515,739).

(c) Shares issuances

On March 5, 2010, the Company completed a non-brokered private placement of 3,426,667 units at a price of $0.30 per unit for gross proceeds of $1,028,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share of the Company at a price of $0.50 per common share expiring March 5, 2012. The share purchase warrants are subject to an acceleration provision whereby if the trading price of the Company's common shares on the TSX Venture Exchange ("Exchange") over a period of 10 consecutive trading days exceeds $0.75, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 days after the date of such notice.

The Company paid an aggregate of $55,965 and issued an aggregate of 53,317 units of the Company as finders' fees related to this financing. Each unit consists 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 $0.50 per common share expiring March 5, 2012.

(Expressed in Canadian Dollars)

8. Share Capital and Reserves - continued

(c) Shares issuances - continued

The fair value of the finders' warrants of $6,666 has been charged to share issue costs with a corresponding increase to warrants reserve. The fair value of these finders' warrants was determined using the Black-Scholes option pricing model using the following weighted average assumptions: expected dividend yield - 0%; expected stock price volatility – 127.32%; risk free interest rate – 1.41%; expected life - 2 years. The weighted average fair value of the finders' warrants issued during the year ended December 31, 2010 was $0.25 per share.

During the three months ended March 31, 2011, 25,000 common shares of the Company were issued upon the exercise of stock options at $0.11 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, 2010, 163,255 common shares of the Company were issued upon the exercise of stock options at $0.11 per share for proceeds of $17,958. As a result of this exercise, $11,198 was transferred from stock options reserve for equity settled share based transactions to share capital.

(d) Warrants

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

	Number of Warrants	Weighted Average Exercise Price
	#	$
Balance, January 1, 2010	5,333,333	0.16
Private placement	1,739,991	0.50
Expired	(1,333,333)	0.33
Balance, December 31, 2010 & March 31, 2011	5,739,991	0.22

Share purchase warrants outstanding at March 31, 2011 are as follows:

Number of warrants	Exercise Price	Expiry Date
#	$	
4,000,000	0.10	April 17, 2011
1,739,991	0.50	March 5, 2012
5,739,991		

(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:

(Expressed in Canadian Dollars)

8. Share Capital and Reserves - continued

(e) Stock options - continued

	Options Outstanding	Weighted Average Exercise Price
	#	$
Balance, January 1, 2010	887,000	0.11
Granted	235,000	0.31
Exercised	(163,255)	0.11
Forfeited	(61,745)	0.11
Balance, December 31, 2010	897,000	0.16
Exercised	(25,000)	0.11
Balance, March 31, 2011	872,000	0.16

Stock options outstanding at March 31, 2011 are as follows:

Exercise Price	Options Outstanding	Expiry Date	Options Exercisable
$	#		#
0.11	362,000	Sept. 26, 2013	362,000
0.11	275,000	April 17, 2019	275,000
0.35	50,000	January 12, 2020	37,500
0.30	185,000	June 14, 2020	115,625
	872,000		790,125

The Company uses the fair value method of accounting for all stock-based payments to directors, officers, employees and consultants providing similar service. During the three months ended March 31, 2011, the Company recorded stock-based compensation expense of $(871) (2010 - $(2,753)) 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:

	2011	2010
Risk free interest rate	-	1.54%
Expected dividend yield	-	0%
Expected stock price volatility	-	118.19%
Expected life	-	2.83 years

The weighted average fair value of options granted during the three months ended March 31, 2011 was $Nil (2010 - $0.33) per share.

(Expressed in Canadian Dollars)

8. Share Capital and Reserves - continued

(f) Loss per share

Basic loss per share is computed by dividing net loss for the period, applicable to common shareholders, by the weighted average number of common shares outstanding for the period, including contingently issuable shares when the conditions necessary for the issuance have been met. Diluted loss per share is calculated in a similar number except that the weighted average number of common shares outstanding is increased to include potential common shares from the assumed exercise of options, warrants and convertible securities, if dilutive.

Three months ended March 31,	2011	2010
	$	$
Loss per share - basic and diluted	0.01	0.01
Loss for the period	118,826	65,914
	#	#
Weighted average number of shares outstanding:		
Issued common shares, January 1	12,515,739	8,872,500
Options exercised	18,611	-
Private placement	-	1,043,995
Weighted average number of shares - basic and diluted	12,534,350	9,916,495

9. Related Party Balances and Transactions

(a) Related party transactions

The Company incurred the following transactions with a company that is controlled by an officer of the Company and with companies having directors in common:

Three months ended March 31,	2011	2010
	$	$
Office, rent and administration	16,500	16,000
Legal fees	-	1,628
	32,700	42,828

(b) Compensation of key management personnel

Three months ended March 31,	2011	2010
	$	$
Short-term benefits - management fees	16,200	25,200
Stock-based compensation	(942)	(5,329)
	15,258	19,871

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.

(Expressed in Canadian Dollars)

9. Related Party Balances and Transactions - continued

(c) Related party balances

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

	March 31, 2011	December 31, 2010
	$	$
Company controlled by a director and officer of the company *(i)*	-	6,048
Company having directors in common *(ii)*	2,000	2,000

These transactions are in the normal course of operations and are measured at the fair value amount of consideration 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.

10. Financial Risk Management

(a) Fair value of financial instruments

The Company's financial instruments consist of cash, short-term investments, amounts receivable, and accounts payable and accrued liabilities. The carrying value of the Company's financial assets and liabilities approximates their fair value due to the relatively short periods to maturity of these investments. Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. These estimates are subjective and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The following table is a classification of fair value measurements recognized using a fair value hierarchy that reflects the significance of the inputs used in making the measurements as at March 31, 2011 and December 31, 2010:

				March 31, 2011
Assets	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and cash equivalents	52,261	-	-	52,261
Short-term investments	800,000	-	-	800,000

(Expressed in Canadian Dollars)

10. Financial Risk Management - continued

(a) Fair value of financial instruments - continued

				December 31, 2010
Assets	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash and cash equivalents	29,443	-	-	29,443
Short-term investments	900,000	-	-	900,000

(b) Financial Instruments Risk

The Company is exposed in varying degrees to a variety of financial instrument related to risks. The Board approves and monitors the risk management processes:

(i) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank, its short-term bank guaranteed investment certificates and amounts receivable. Cash and cash equivalents consisting of Guaranteed Investment Certificates ("GICs") have been invested with Schedule 1 banks or equivalents, with its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. The receivables consist primarily of GST/HST recoverable of $7,769 and interest receivable of $7,425.

(ii) Liquidity Risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at March 31, 2011, the Company had cash and short-term investments of $852,261 to settle current liabilities of $17,613 which mainly consist of accounts payable that are considered short term and settled within 30 days. The Company has sufficient capital to meet its requirements for the next twelve months.

(iii) Market risk

a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash attract interest at floating rates and have maturities of 90 days or less. The Company's short-term investments are invested in GICs with greater than 90 day terms but not greater than one year. These GICs have a fixed interest rate for the term of the deposit. The interest on cash and GICs is typical of Canadian banking rates, which are low at present and the conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the financial statements.

b) Commodity Price Risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's risk relates primarily to the expected output to be produced at its mineral properties described in note 7 to these consolidated financial statements of which production is not expected in the near future.

10. Financial Risk Management - continued

(c) Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The management of the capital structure is based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares or debt or sell assets to settle liabilities.

The properties in which the Company currently has an interest in are in the exploration stage, as such, the Company does not recognize revenue from its exploration properties. The Company's historical sources of capital have consisted of the sale of equity securities and interest income. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and expects to raise additional amounts externally as needed.

The Company has no debt and is not subject to externally imposed capital requirements.

There were no changes in the Company's management of capital during the three months ended March 31, 2011.

11. Transition to IFRS

The Company adopted IFRS on January 1, 2011, with the transition date of January 1, 2010 representing the Company's opening IFRS balance sheet. As required by IFRS 1, *First-time Adoption of IFRS*, the Company will apply the IFRS in effect as at December 31, 2011 on a full retrospective basis, except where permitted or required under an IFRS 1 exemption.

On adoption of IFRS 1, the Company elected to apply the following exemptions:

IFRS 3 "Business Combinations" has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010.

IFRS 2 "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.

IAS 16 "Property, Plant and Equipment" allows for property, plant and equipment to continue to be carried at cost less depreciation, same as under GAAP.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening balance sheet dated January 1, 2010:

Estimates – In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as at January 1, 2010 are consistent with its previous estimates under GAAP for the same date.

LORNEX CAPITAL INC.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Three Months Ended March 31, 2011 and 2010
(Unaudited – Prepared by Management)

11. Transition to IFRS - continued

Reconciliation of Assets, Liabilities and Equity

	Note	As at January 1, 2010			As at March 31, 2010			As at December 31, 2010		
		Canadian GAAP	Effect of Transition to IFRS	**IFRS**	Canadian GAAP	Effect of Transition to IFRS	**IFRS**	Canadian GAAP	Effect of Transition to IFRS	**IFRS**
		$	$	**$**	$	$	**$**	$	$	**$**
Assets										
Current assets										
Cash		19,915	-	**19,915**	910,961	-	**910,961**	29,443	-	**29,443**
Short-term investments		275,000	-	**275,000**	275,000	-	**275,000**	900,000	-	**900,000**
Accounts receivable		4,513	-	**4,513**	4,161	-	**4,161**	13,791	-	**13,791**
Prepaid expenses and deposits		2,000	-	**2,000**	2,000	-	**2,000**	58,932	-	**58,932**
		301,428	-	**301,428**	1,192,122	-	**1,192,122**	1,002,166	-	**1,002,166**
Non-current assets										
Reclamation deposits		5,000	-	**5,000**	5,000	-	**5,000**	-	-	**-**
Mineral property interests		25,000	-	**25,000**	25,000	-	**25,000**	35,168	-	**35,168**
Property, plant and equipment		-	-	**-**	-	-	**-**	4,134	-	**4,134**
		30,000	-	**30,000**	30,000	-	**30,000**	39,302	-	**39,302**
Total assets		331,428	-	**331,428**	**1,222,122**	-	**1,222,122**	**1,041,468**	**-**	**1,041,468**

LORNEX CAPITAL INC.
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

Three Months Ended March 31, 2011 and 2010
(Unaudited – Prepared by Management)

11. Transition to IFRS - continued

Reconciliation of Assets, Liabilities and Equity

		As at January 1, 2010			As at March 31, 2010			As at December 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	**IFRS**	Canadian GAAP	Effect of Transition to IFRS	**IFRS**	Canadian GAAP	Effect of Transition to IFRS	**IFRS**
		$	$	**$**	$	$	**$**	$	$	**$**
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities		21,630	-	**21,630**	17,346	-	**17,346**	24,255	-	**24,255**
Equity										
Share capital		2,633,874	-	**2,633,874**	$3,590,853	-	**3,590,853**	3,619,811	-	**3,619,811**
Reserves										
Stock option reserve	11 (b)	-	388,804	**388,804**	-	386,051	**386,051**	-	389,511	**389,511**
Warrants	11 (b)	-	-	**-**	-	6,666	**6,666**	-	6,666	**6,666**
Contributed surplus	11(a)(b)	307,863	(307,863)	**-**	329,200	(329,200)	**-**	342,857	(342,857)	**-**
Deficit	11 (b)	(2,631,939)	(80,941)	**(2,712,880)**	(2,715,277)	(63,517)	**(2,778,794)**	(2,945,455)	(53,320)	**(2,998,775)**
		309,798	-	**309,798**	1,204,776	-	**1,204,776**	1,017,213	-	**1,017,213**
Total equity and liabilities		**331,428**	**-**	**331,428**	**1,222,122**	**-**	**1,222,122**	**1,041,468**	**-**	**1,041,468**

(Expressed in Canadian Dollars)

11. Transition to IFRS - continued

Reconciliation of Loss and Comprehensive Loss

		Three months ended March 31, 2010			Year ended December 31, 2010		
	Note	GAAP	Effect of Transition to IFRS	**IFRS**	GAAP	Effect of Transition to IFRS	**IFRS**
		$	$	**$**	$	$	**$**
Expenses							
Amortization		-	-	**-**	730	-	**730**
Bank charges and interest		151	-	**151**	430	-	**430**
Consulting fees		7,850	-	**7,850**	40,250	-	**40,250**
Management fees		25,200	-	**25,200**	73,800	-	**73,800**
Office, rent and administration		19,955	-	**19,955**	88,863	-	**88,863**
Professional fees		378	-	**378**	22,579	-	**22,579**
Regulatory fees		13,710	-	**13,710**	16,053	-	**16,053**
Stock-based compensation	11(b)	14,671	(17,424)	**(2,753)**	39,526	(27,621)	**11,905**
Transfer agent		1,046	-	**1,046**	6,044	-	**6,044**
Travel, promotion and shareholder communications		674	-	**674**	27,015	-	**27,015**
Loss from operations		(83,635)	-	**(66,211)**	(315,290)	-	**(287,669)**
Other items							
Interest income		297	-	297	6,774	-	**6,774**
Write-off of reclamation deposits		-	-	-	(5,000)	-	**(5,000)**
		297	-	**297**	1,774	-	**1,774**
Loss for the period		(83,338)	-	**(65,914)**	(313,516)	-	**(285,895)**
Other comprehensive income		-	-	-	-	-	**-**
Total comprehensive loss for the period		(83,338)	-	**(65,914)**	(313,516)	-	**(285,895)**

(Expressed in Canadian Dollars)

11. Transition to IFRS - continued

Reconciliation of Cash Flows

		Three months ended March 31, 2010			Year ended December 31, 2010		
	Note	GAAP	Effect of Transition to IFRS	**IFRS**	GAAP	Effect of Transition to IFRS	**IFRS**
		$	$	**$**	$	$	**$**
Operation activities							
Net loss		(83,338)	17,424	**(65,914)**	(313,516)	27,621	**(285,895)**
Items not affecting cash							
Amortization		-	-	**-**	730	-	**730**
Stock-based compensation	11(b)	14,671	(17,424)	**(2,753)**	39,526	(27,621)	**11,905**
Write off of reclamation deposits		-	-	**-**	5,000	-	**5,000**
Change in non-cash working capital components							
Accounts receivable		352	-	**352**	(9,278)	-	**(9,278)**
Prepaid expenses and deposits		-	-	**-**	(56,932)	-	**(56,932)**
Accounts payable and accrued liabilities		(4,284)	-	**(4,284)**	2,625	-	**2,625**
		(72,599)	-	**(72,599)**	(331,845)	-	**(331,845)**
Financing activities							
Issuance of shares, net of share issue costs		963,645	-	**963,645**	981,405	-	**981,405**
Investing activities							
Short term investments		-	-	**-**	(625,000)	-	**(625,000)**
Property, plant and equipment		-	-	-	(4,864)	-	**(4,864)**
Mineral properties		-	-	-	(10,168)	-	**(10,168)**
		-	-	**-**	(640,032)	-	**(640,032)**
Net cash (outflow) inflow		891,046	-	**891,046**	9,528	-	**9,528**
Cash and equivalents, beginning of period		19,915	-	**19,915**	19,915	-	**19,915**
Cash and equivalents, end of period		910,961	-	**910,961**	29,443	-	**29,443**

Notes to reconciliations

(a) Reserves

Under GAAP, amounts recorded in relation to the fair value of stock options granted and warrants issued were recorded to contributed surplus. Under IFRS, these amounts have been reclassified as reserves.

11. Transition to IFRS - continued

Notes to reconciliations - continued

(b) Share-based payments

Under GAAP, the Company recognized an expense related to share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple on the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate. Accordingly, upon transition to IFRS, the Company recorded a fair value adjustment of $80,941 as at January 1, 2010 to increase reserves with a corresponding charge to retained earnings. The Company elected to use the IFRS exemption whereby the liabilities for share-based payments that had vested or settled prior to January 1, 2010 were not required to be retrospectively restated. In addition to the January 1, 2010 adjustment discussed above, the IFRS fair value re-measurements subsequent to transition decreased reserves by $27,621 as at December 31, 2010 in comparison to GAAP and $17,424 as at March 31, 2010 with a corresponding increase to earnings.