

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Financial Statements

Nine Months ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed an audit or review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada.

Lithoquest Diamonds Inc.

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

As at	December 31, 2018	March 31, 2018
ASSETS		
Current Assets		
Cash	\$ 1,529,115	\$ 4,394,892
Sales taxes recoverable	87,018	45,176
Prepaid expenses	23,412	218,133
Total current assets	1,639,545	4,658,201
Exploration and evaluation asset (note 3)	2,832,832	747,837
Total assets	\$ 4,472,377	\$ 5,406,038
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 340,316	\$ 362,238
Equity		
Share capital (note 4)	8,005,194	7,957,019
Contributed surplus	1,193,140	872,840
Deficit	(5,066,273)	(3,786,059)
Total equity	4,132,061	5,043,800
Total liabilities and equity	\$ 4,472,377	\$ 5,406,038

Nature of the Company and continuance of operations (note 1)

On behalf of the Board of Directors:

“Bruce Counts”

Director

“Lon Shaver”

Director

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

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the nine months ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	Share Capital		Subscriptions Receivable	Contributed Surplus	Deficit	Total Equity
	Number of Shares	Amount				
Balance, March 31, 2017	14,666,668	\$ 692,882	\$ (132,882)	\$ 15,000	\$ (304,893)	\$ 270,107
Shares issued for service	2,000,000	15,000	-	(15,000)	-	-
Share subscriptions received	-	-	132,882	-	-	132,882
Units issued for cash, net of issuance costs	4,725,000	913,200	-	2,400	-	915,600
Cancellation of Holdings' shares	(21,391,668)	-	-	-	-	-
Issuance of shares in exchange for Holdings' shares	21,391,668	-	-	-	-	-
RTO transaction shares issued	5,543,023	1,496,616	-	-	-	1,496,616
Concurrent private placement, net of issuance costs	18,977,272	4,846,949	-	74,250	-	4,921,199
Share-based payments	-	-	-	614,000	-	614,000
Comprehensive loss	-	-	-	-	(2,803,471)	(2,803,471)
Balance, December 31, 2017	45,911,963	\$ 7,964,647	\$ -	\$ 690,650	\$ (3,108,364)	\$ 5,546,933
Balance, March 31, 2018	45,911,963	\$ 7,957,019	\$ -	\$ 872,840	\$ (3,786,059)	\$ 5,043,800
Shares issued for cash						
- on exercise of warrants	144,584	43,375	-	-	-	43,375
- on exercise of finder's warrants	12,000	4,800	-	(2,400)	-	2,400
Share-based payments	-	-	-	322,700	-	322,700
Comprehensive loss	-	-	-	-	(1,280,214)	(1,280,214)
Balance, December 31, 2018	46,068,547	\$ 8,005,194	\$ -	\$ 1,193,140	\$ (5,066,273)	\$ 4,132,061

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

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the nine months ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	Three Months		Nine Months	
	2018	2017	2018	2017
Expenses				
Foreign exchange loss	\$ 504	\$ -	\$ 13,718	\$ -
Marketing and investor relations	112,017	12,406	349,458	42,366
Office and general	21,596	18,549	58,338	22,315
Professional fees	16,244	23,066	49,769	112,917
Regulatory and shareholder services	5,545	6,218	13,027	8,718
Salaries and management and consulting fees	138,188	73,250	390,213	239,750
Share-based payments (note 4)	151,500	614,000	322,700	614,000
Travel	18,224	23,722	100,079	42,847
Loss before other items	(463,818)	(771,211)	(1,297,302)	(1,082,913)
Other items				
Interest income	6,530	1,613	17,088	1,613
Listing expense	-	(1,722,171)	-	(1,722,171)
	6,530	(1,720,558)	17,088	(1,720,558)
Loss and comprehensive loss	\$ (457,288)	\$ (2,491,769)	\$ (1,280,214)	\$ (2,803,471)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.08)	\$ (0.03)	\$ (0.13)
Weighted average number of common shares outstanding	46,068,547	31,630,912	46,057,347	22,085,357

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Lithoquest Diamonds Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	2018	2017
Cash flow used in operating activities		
Loss for the period	\$ (1,280,214)	\$ (2,803,471)
Items not affecting cash		
Share-based payments	322,700	614,000
Non-cash portion of listing expense	-	1,531,916
	(957,514)	(657,555)
Non-cash working capital items (note 5)	130,957	(145,431)
	(826,557)	(802,986)
Cash flow used in investing activities		
Exploration and evaluation asset (note 3)	(2,084,995)	(505,119)
	(2,084,995)	(505,119)
Cash flow from financing activities		
Proceeds from the issuance of shares	45,775	-
Cash acquired from reverse takeover transaction	-	42,930
Proceeds from the issuance of units	-	6,068,863
Share issue costs	-	(232,064)
Subscriptions received	-	132,882
	45,775	6,012,611
Increase (decrease) in cash	(2,865,777)	4,704,506
Cash, beginning of year	4,394,892	206,240
Cash, end of period	\$ 1,529,115	\$ 4,910,746

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

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

1. Nature of the Company and Continuance of Operations

Lithoquest Diamonds Inc. (“Lithoquest” or the “Company”) (previously Consolidated Westview Resource Corp.) was incorporated on February 25, 1986 in Alberta. In April 2014 it was continued from the jurisdiction of Alberta to British Columbia, Canada. Its name was changed to Lithoquest Diamonds Inc. on November 23, 2017 following a reverse takeover transaction.

The Company is engaged in the acquisition and exploration of mineral properties. The Company’s head office is at Suite 2000, 1066 West Hastings St., Vancouver BC V6E 3X2. The Company is listed on the TSX Venture Exchange (“TSX-V”) under the symbol “LDF”.

The Company is currently in the process of acquiring, exploring and evaluating potential properties in the Kimberly region of the Australian state of Western Australia. The Company has not generated significant revenues or cash flows from operations and has not yet determined whether its mineral property asset contains ore reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation asset is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development of and the future profitable production from the property or realizing proceeds from its disposition. The outcome of these matters cannot be predicted at this time and the uncertainties cast significant doubt upon the Company’s ability to continue as a going concern. These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

As at December 31, 2018, the Company has a working capital of \$1,299,229 representing funds available to cover on-going operating costs. The Company has incurred negative cash flows from operations, recorded a loss of \$1,280,214 for the nine months ended December 31, 2018, and has an accumulated deficit of \$5,066,273 as at December 31, 2018.

2. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended March 31, 2018, prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The accounting policies applied in preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company’s consolidated financial statements for the year ended March 31, 2018, unless otherwise stated.

These financial statements were authorized for issue by the Board of Directors of the Company on February 28, 2019.

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. Exploration and Evaluation Asset

North Kimberly Diamond Project

Balance, March 31, 2017	\$ 171,964
Land administration	92,662
Exploration and evaluation expenditures	483,211
Balance, March 31, 2018	\$ 747,837
Land administration	24,127
Exploration and evaluation expenditures	2,060,868
Balance, December 31, 2018	\$ 2,832,832

4. Share Capital

Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

Issued shares

The issued and outstanding common shares consist of the following:

	Number of Common Shares	Amount
Balance, March 31, 2018	45,911,963	\$ 7,957,019
Shares issued on exercise of warrants (a)	144,584	43,375
Shares issued on exercise of finder's warrants (b)	12,000	4,800
Balance, December 31, 2018	46,068,547	\$ 8,005,194

- (a) During the period the Company issued a total of 144,584 common shares upon the exercise of warrants. The price per share was \$0.30 for gross proceeds of \$43,375.
- (b) During the period the Company issued a total of 12,000 common shares upon the exercise of finder's warrants. The price per share was \$0.20 for gross proceeds of \$2,400. The fair value of \$2,400 related to the warrants exercised was reclassified from contributed surplus to share capital.

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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4. Share Capital - continued

Stock Options

The continuity of share purchase options is as follows:

	Number of Options	Weighted average exercise price
Outstanding, March 31, 2018	3,000,000	\$ 0.29
Options granted (a)	200,000	0.56
Options granted (b)	160,000	0.60
Options granted (c)	1,040,000	0.16
Outstanding, December 31, 2018	4,400,000	\$ 0.28

- (a) On April 5, 2018, the Company granted 200,000 stock options to a director of the wholly-owned subsidiary in Australia and to a consultant of the Company. The options vested on grant date and are exercisable at \$0.56 per share for 5 years. The stock options were valued at \$102,000 using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years, risk-free rate of 2.00%, expected dividend yield of 0%, and expected volatility of 150%. The share price at the time of the grant was \$0.56.
- (b) On July 12, 2018, the Company granted 160,000 stock options to consultants of the Company. The options vested on grant date and are exercisable at \$0.60 per share for 5 years. The stock options were valued at \$69,200 using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years, risk-free rate of 2.05%, expected dividend yield of 0%, and expected volatility of 150%. The share price at the time of the grant was \$0.48.
- (c) On December 17, 2018, the Company granted 1,040,000 stock options to directors, officers and consultants of the Company. The options vested on grant date and are exercisable at \$0.16 per share for 5 years. The stock options were valued at \$151,500 using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years, risk-free rate of 1.95%, expected dividend yield of 0%, and expected volatility of 150%. The share price at the time of the grant was \$0.16.

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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4. Share Capital - continued

Stock Options - continued

As at December 31, 2018, the following options were outstanding and exercisable:

Expiry Date	Remaining Contractual Life (in years)	Number of Options	Exercise Price
November 23, 2022	3.9	2,500,000	\$ 0.27
January 2, 2023	4.0	500,000	0.40
April 5, 2023	4.3	200,000	0.56
July 12, 2023	4.5	160,000	0.60
December 17, 2023	5.0	1,040,000	0.16
		4,400,000	

During the period the Company recognized \$322,700 (2017 - \$614,000) in share-based payments. As of December 31, 2018, all options issued under the Company's stock option plan were fully vested.

Warrants

The continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted average exercise price
Outstanding, March 31, 2018	17,595,970	\$ 0.35
Warrants exercised	(156,584)	(0.29)
Outstanding, December 31, 2018	17,439,386	\$ 0.35

As at December 31, 2018, the following warrants were outstanding and exercisable:

Expiry Date	Number of Warrants	Exercise Price
November 23, 2019	7,565,836	\$ 0.30
November 23, 2019	9,488,636	0.40
November 23, 2019	384,914	0.27
	17,439,386	

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5. Additional Cash Flow Information

The net change in non-cash working capital consists of the following:

	December 31, 2018	December 31, 2017
Sales taxes recoverable	\$ (41,842)	\$ (26,093)
Prepaid expenses	194,721	(152,535)
Accounts payable and accrued liabilities	(21,922)	33,197
	\$ 130,957	\$ (145,431)