

# Lithoquest Diamonds Inc.

Interim MD&A – Quarterly Highlights  
Three Months Ended June 30, 2019

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## Introduction

This Interim Management Discussion and Analysis – Quarterly Highlights (“MD&A”) has been prepared to provide material updates to the business operations and financial condition of Lithoquest Diamonds Inc. (“Lithoquest” or the “Company”), since its last annual management discussion and analysis, being the Management Discussion & Analysis (the “Annual MD&A”) for the fiscal year ended March 31, 2019. This MD&A does not provide a general update to the Annual MD&A, or reflect any non-material events since the date of the Annual MD&A.

This MD&A has been prepared in compliance with the requirements of section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Annual MD&A, the audited annual consolidated financial statements of the Company for the years ended March 31, 2019 and 2018, and the unaudited condensed interim consolidated financial statements for the three months ended June 30, 2019 and the related notes thereto. All reported amounts are stated in Canadian Dollars unless otherwise indicated. The information contained herein is presented as at August 23, 2019, unless otherwise indicated.

## Description of Business

Lithoquest is a mineral exploration and development company engaged in the acquisition, exploration and development of properties for the purpose of diamond mining. The Company does not have any resource properties in production currently.

The Company was incorporated in British Columbia, Canada. Its head office is located at Suite 2000, 1066 West Hastings Street, Vancouver, BC V6E 3X2

## Discussion of Operations

### Australia Diamond Project

Lithoquest has identified diamond exploration targets in Western Australia (the “North Kimberley Diamond Project”, “NKDP”, or the “Property”) and, through its wholly owned Australian subsidiary Lithoquest Diamonds (Australia) Pty. Ltd. (“Lithoquest Australia”) (formerly Primeform Investments Pty Ltd.), acquired a 100% interest in two exploration licenses to cover the targets, E80/5029 and E80/5030 (the “Exploration Licenses”) covering a total of 100,803.77 hectares in the King George River region of Western Australia. The Exploration Licenses were granted on January 17, 2017 for a term of five-years.

On September 3, 2018, Lithoquest Australia was granted a third exploration license covering 49,802.18 hectares contiguous with the lands covered by the Exploration Licenses. This exploration license, E80/5163, was granted for a term of five-years and will form part of the North Kimberley Diamond Project or the Property.

The North Kimberley Diamond Province, covering an estimated area of some 4,000 km<sup>2</sup>, was the first kimberlite province to be discovered in Western Australia. Despite early encouragement from the discovery of diamondiferous kimberlite dykes in the mid 1970’s, it was not until the 1990’s during the second phase of exploration that significant diamondiferous kimberlite pipes were discovered. The diamondiferous discoveries proved not to be economically viable and exploration ceased by 2005.

The benefit of this historic exploration is that it has provided insights on the preferential regional structures influencing the emplacement of the known pipes, as well as the exploration challenges posed by deep weathering and the development of post emplacement ‘infill’ sediments. Bulk testing of alluvial deposits, kimberlites pipes and dykes has demonstrated that a variety of diamond populations are present in the Province. Although many of the explorers have reported the occurrence of alluvial diamonds, no potential placer deposits have been identified. Large diamonds were confirmed when +10 ct sized diamonds were reported from bulk testing of the Ashmore cluster of pipes. The largest pipe

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discovered in the region is the weakly diamondiferous Pteropus 2 pipe, which has a surface area of 10 ha.

The Property covers the underexplored northwest portion of a prospective kimberlite corridor and is considered an early to intermediate stage exploration project.

The size of the North Kimberley Diamond Province, the range in size of the kimberlite bodies, the demonstrated variability of the diamond populations and the occurrence of large diamonds, are characteristics that when considered together support the potential for the region to host an economic diamond deposit.

The reader is directed to a NI 43-101 Technical Report available on SEDAR entitled “North Kimberley Diamond Project” (the “Report”) prepared independently by T. H. Reddicliffe BSc Hons (Geol), MSc, FAUSIMM, for a fulsome description of the Property, its geology, historical work and recommended exploration program.

## Exploration Activities

### ***Previous periods***

The Company conducted a field exploration program on the Property in December 2017, and a second field program in the period June through September 2018 which included drilling. In November 2018, the Company conducted a high-definition airborne magnetic survey over a key target area on the Project. The reader is directed to the Company’s Annual MD&A for the years ended March 31, 2019 and 2018, for details of these programs and the results.

### ***2019 Field Season***

The 2019 field program commenced in June 2019 and is being conducted in two phases. The first phase concentrated on assessing prospective areas identified by the Company with the objective of selecting and prioritizing targets for drill testing. Exploration activities during this period included geological mapping, prospecting, ground geophysical surveying and sampling for kimberlite indicator minerals. The second phase of the field program will focus on testing the most prospective kimberlite targets using a reverse circulation drill. The complete results from Phase I are expected to be received by mid-September. The budget for the 2019 program will vary depending on the amount of drilling conducted, but is planned to total approximately \$1.5 million.

Total exploration expenditures for the three months ended June 30, 2019 were \$660,587.

## Target 1826

On August 7, 2019, the Company announced that the first of the results from Phase I were received and included confirmation that Target 1826 is a high-priority drill target for the 2019 program.

Target 1826 is defined by a circular magnetic feature, consistent with known kimberlites, and is associated with a surface drainage that runs east to west. The target was identified while exploring for the source of a strong kimberlite indicator mineral (KIM) anomaly present in the historical record.

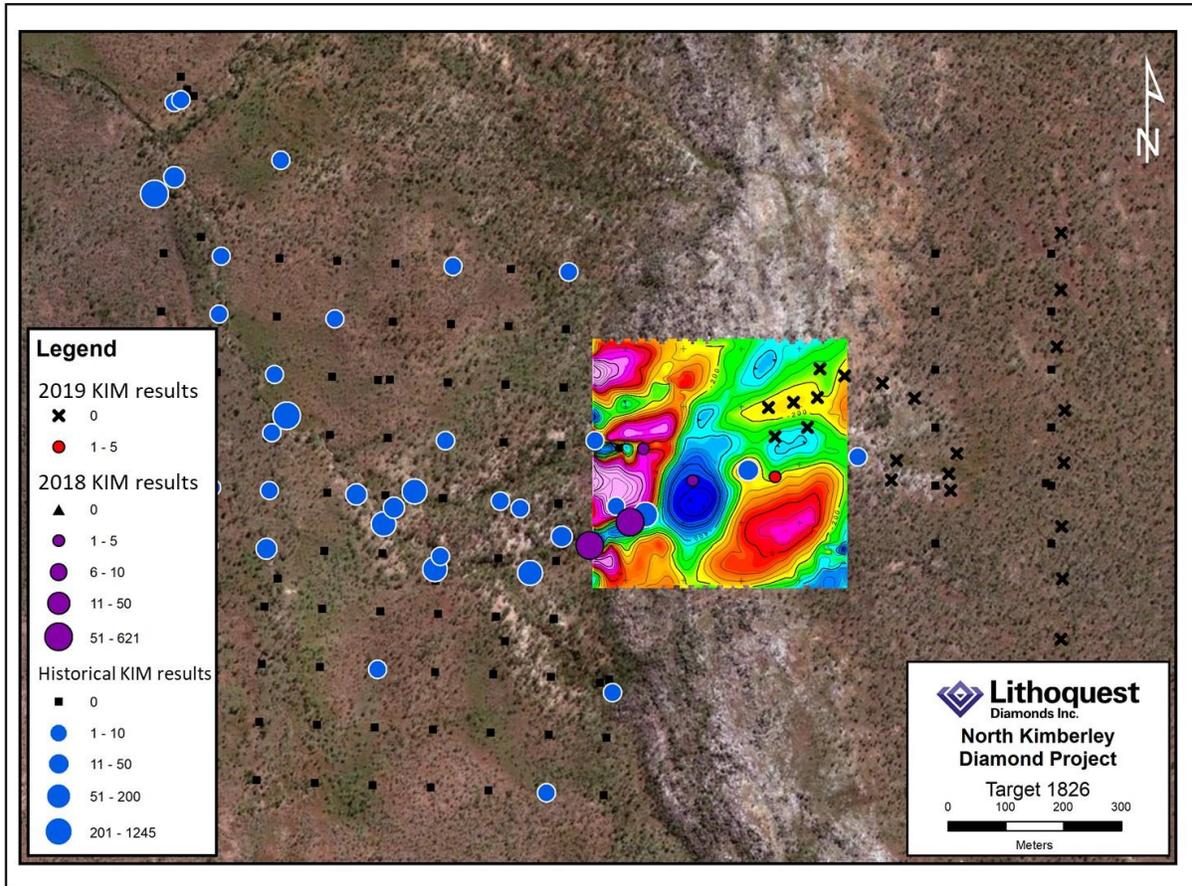
In 2018, a program to confirm historical KIMs results was undertaken. Stream and loam samples collected west of Target 1826 yielded probe-confirmed kimberlitic chromite and ilmenite grains. Samples collected to the east of Target 1826 during the 2019 Phase I program returned no KIM’s. These results suggest that the source of the KIM’s has been isolated and increases the confidence of the Company that the magnetic feature is kimberlite.

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**Figure 1: Target 1826 – Ground Magnetic Survey and Geochemistry Results over Satellite Image**



## 2019 Field Program: Phase I – Target Generation

Phase I of the NKDP 2019 field program concluded on time and under-budget. The program focused on refining 20 priority target areas with the collection of rock, stream and loam samples, test-pitting and ground geophysical surveys.

In total, 45 rock, 48 stream and 93 loam samples were collected, 35 test pits were excavated, and more than 340 line-kilometres of ground geophysical surveys were completed. More laboratory results are expected from the 2019 Phase I program over the period to mid-September and will be used to select additional targets for the upcoming program. Lithoquest is using Perth-based laboratories for the processing and analysis of rock, stream, loam and test-pit samples.

The Phase I field program and laboratory work have been overseen by Mr. Dave Skelton P.Geol. and Mr. Tom Reddicliffe FAusIMM. Mr. Skelton has more than 25 years of diamond exploration experience and was involved in the discovery of several kimberlite fields including the Buffalo Head Hills cluster. Mr. Reddicliffe has more than 40 years of diamond exploration experience in Australia and is credited with the discovery of the Merlin Diamond Mine. The field team is further supported by Ms. Gina Rockett, a senior exploration consultant with more than 25 years experience who recently served as Senior Exploration Geologist at Merlin Diamond Mines.

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## 2019 Field Program: Phase II – Drilling

Upon completion of its current financing, the Company plans to commence the drill program. Facilities to support the drill program are currently planned to be mobilized to the NKDP in September. It is anticipated that a reverse-circulation drill provided by a Perth-based drilling company will arrive on site in September. The Company plans to drill test up to ten targets during the Phase II program which is expected to run into October.

## **Liquidity and Resources**

The Company generates cash solely through financing activities. The Company commenced a non-brokered private placement financing (the “Offering”), of up to 15,000,000 units at a price of \$0.10 per unit (the “Units”) for aggregate gross proceeds of up to \$1,500,000. Each Unit will consist of one common share of the Company and a net smelter royalty (“NSR”) on the Company’s ownership interest in the North Kimberly Diamond Project. The royalty rate of the NSR will be determined at the ratio of 1% per \$1,000,000 of gross proceeds.

During the three-month period ended June 30, 2019, the Company received \$640,000 in connection with subscriptions for 6,400,000 Units of the Offering and, following the period end, received an additional \$338,000 for a further 3,380,000 Units. Together these subscriptions were closed in a first tranche of the financing subsequent to the period end. See – “Subsequent Event” below.

At June 30, 2019, the Company had cash of \$1,228,460 and working capital of \$615,141.

The Company’s working capital is being used to fund, among other things, initial exploration of Lithoquest’s North Kimberley Diamond Project in Western Australia and the general corporate and working capital expenses of the Company.

To further its existing plans, the Company will continue to market its announced non-brokered private placement. The Company is involved in early stage exploration and data analysis. It has no current sources of revenue and does not anticipate receiving revenue in the foreseeable future. It is highly likely that it will continue to depend on equity financings in the future. The availability of future funding will depend on factors that include market conditions and the Company’s exploration results.

As of the date of this MD&A, the Company has completed the on-ground portion of Phase I of its planned 2019 field season and has no material further expenditure commitments.

## **Subsequent Event**

On July 10, 2019, the Company closed the first tranche of a non-brokered private placement offering (the “Offering”) in which it issued 9,780,000 common shares and received a total gross proceeds of \$978,000. Concurrent with the closing of the Offering, the Company issued Royalty Certificates for Net Smelter Returns Royalties aggregating 0.978% over its North Kimberley Diamond Project.

## **Risks and Uncertainties**

### No Operating History and Financial Resources

The Company does not have an operating history, has no operating revenues, and is unlikely to generate any in the foreseeable future. It anticipates that its existing cash resources, together with those funds it plans to generate by closing the remaining tranches of the current financing, will be sufficient to complete its planned exploration program. Depending on the nature of further exploration programs, additional funds may be required. Additional funds will also be required for the Company to acquire and explore other mineral interests. The Company has limited financial resources and there is no assurance that sufficient additional funding will be available to fulfill its obligations or for further exploration and

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development, on acceptable terms or at all. Failure to obtain additional funding on a timely basis could result in a delay or indefinite postponement of further exploration and development and could cause the Company to forfeit its interests in some or all of its properties or to reduce or terminate its operations.

## Price Volatility and Lack of Active Market

In recent years, the securities markets in Canada and elsewhere have experienced a high level of price and volume volatility, and the market prices of securities of many public companies have experienced significant fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any quoted market for the Company's securities will be subject to such market trends and that the value of such securities may be affected accordingly.

## Mining Risks

Mineral exploration is a speculative venture necessarily involving substantial risk and there can be no guarantee that mineable deposits will be discovered or developed. Mining operations involve significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate or adequately mitigate. There is no certainty that the expenditures made by the Company on any given project will result in discoveries of commercial quantities of minerals. If mineable deposits are discovered, substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on terms acceptable to the operator or at all.

The Company is subject to the operating risks typical in the mining business including unusual and unexpected geological formations, rock bursts, particularly as mining moves into deeper levels, cave-ins, flooding and other conditions involved in the drilling and removal of material as well as environmental damage and other hazards; risks that intended drilling schedules or estimated costs will not be achieved; and risks of fluctuations in the price of commodities and currency exchange rates. Mineral prices are subject to volatile price movements over short periods of time and are affected by numerous factors, all of which are beyond the Company's control, including expectations of inflation, levels of interest rates, sale of gold by central banks, the demand for commodities, global or regional political, economic and banking crises and production rates in major producing regions. The aggregate effect of these factors is impossible to predict with any degree of certainty.

## Business Risks

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations.

Financial risks include commodity prices, interest rates and foreign exchange rates, all of which are beyond the Company's control.

Regulatory risks include possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company and include increased fees for filings as

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well as the introduction of ever more complex reporting requirements, the cost of which the Company must meet to maintain its exchange listing.

## Competition

The mineral exploration and mining business is competitive in all its phases. The Company will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive exploration and evaluation properties. The Company's ability to acquire properties in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable prospects for mineral exploration or development. There is no assurance that the Company will be able to compete successfully with others in acquiring such prospects.

## Key Executives

The Company is dependent on the services of key executives and a small number of highly skilled and experienced consultants and personnel, whose contributions to the immediate future operations of the Company are likely to be of importance. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees or consultants may adversely affect its business and future operations. The Company does not currently carry any key man life insurance on any of its executives.

## Potential Conflicts of Interest

Certain directors and officers of the Company are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of the Company. Situations may arise in connection with potential acquisitions in investments where the other interests of these directors and officers may conflict with the interests of the Company. Directors and officers of the Company with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulation, rules and policies.

## Dividends

The Company has no earnings or dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for mineral exploration and development. Any future determination to pay dividends will be at the discretion of the Board of Directors of the Company and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors of the Company deem relevant.

## Nature of the Securities

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

## **Forward-Looking Statements & Cautionary Factors that may Affect Future Results**

Certain statements contained in this MD&A constitute forward-looking statements, within the meaning of Canadian securities regulations. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, assumptions or future events or performance (often using words such as "plan", "estimate", "expect", "will", "believe" and similar expressions) are not statements

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of historical fact and may be forward-looking statements. Forward-looking statements contained in this MD&A include but are not limited to statements relating to the sufficiency of the Company's capital resources, exposure to exchange rate fluctuations, plans for and the duration of the exploration field work program, and expected expenditures of the Company. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth above. The Company assumes no obligation to update or revise forward looking statements to reflect new events or circumstances except as required by law.

### **Qualified Person**

The technical contents of this MD&A have been reviewed and approved by Bruce Counts, P. Geo., President, CEO and a Director of Lithoquest Diamonds Inc. and Qualified Person under National Instrument 43-101.

### **Additional Information**

Additional information relating to the Company is available on the SEDAR website, [www.sedar.com](http://www.sedar.com).