

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Financial Statements

Six Months ended September 30, 2019 and 2018

(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 | September 30, 2019 | March 31, 2019 |
|---|-----------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 762,093 | \$ 1,172,346 |
| Sales taxes recoverable | 96,557 | 46,253 |
| Prepaid expenses | 70,312 | 5,171 |
| Total current assets | 928,962 | 1,223,770 |
| Exploration and evaluation asset (note 3) | 4,084,041 | 3,060,303 |
| Total assets | \$ 5,013,003 | \$ 4,284,073 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities (note 6) | \$ 561,259 | \$ 399,296 |
| Equity | | |
| Share capital (note 4) | 8,895,874 | 8,001,150 |
| Contributed surplus | 1,242,040 | 1,193,140 |
| Deficit | (5,686,170) | (5,309,513) |
| Total equity | 4,451,744 | 3,884,777 |
| Total liabilities and equity | \$ 5,013,003 | \$ 4,284,073 |

Nature of the Company and continuance of operations (note 1)
Contingent liability (note 6)
Subsequent event (note 7)

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 six months ended September 30, 2019 and 2018

(Expressed in Canadian Dollars)

| | Share Capital | | Contributed Surplus | Deficit | Total Equity |
|--|---------------------|---------------------|------------------------|-----------------------|---------------------|
| | Number of Shares | Amount | | | |
| 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 | - | - | 171,200 | - | 171,200 |
| Comprehensive loss | - | - | - | (822,926) | (822,926) |
| Balance, September 30, 2018 | 46,068,547 | \$ 8,005,194 | \$ 1,041,640 | \$ (4,608,985) | \$ 4,437,849 |
| Balance, March 31, 2019 | 46,068,547 | \$ 8,001,150 | \$ 1,193,140 | \$ (5,309,513) | \$ 3,884,777 |
| Private placement financing, net of issuance costs | 9,780,000 | 894,724 | 48,900 | - | 943,624 |
| Comprehensive loss | - | - | - | (376,657) | (376,657) |
| Balance, September 30, 2019 | 55,848,547 | \$ 8,895,874 | \$ 1,242,040 | \$ (5,686,170) | \$ 4,451,744 |

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

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the six months ended September 30, 2019 and 2018

(Expressed in Canadian Dollars)

| | Three Months | | Six Months | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Expenses | | | | |
| Foreign exchange (gain) loss | \$ (673) | \$ 13,451 | \$ (4,498) | \$ 13,214 |
| Management and consulting fees | 84,493 | 127,600 | 169,591 | 252,025 |
| Marketing and corporate development | 34,632 | 74,777 | 100,233 | 237,441 |
| Office and general | 19,976 | 20,106 | 38,155 | 36,742 |
| Professional fees | 18,157 | 21,014 | 28,157 | 33,525 |
| Regulatory and shareholder services | 3,755 | 4,827 | 5,433 | 7,482 |
| Share-based payments (<i>note 4</i>) | - | 69,200 | - | 171,200 |
| Travel | 30,013 | 33,806 | 44,159 | 81,855 |
| Loss before other item | (190,353) | (364,781) | (381,230) | (833,484) |
| Other item | | | | |
| Interest income | 2,442 | 5,099 | 4,573 | 10,558 |
| Loss and comprehensive loss | \$ (187,911) | \$ (359,682) | \$ (376,657) | \$ (822,926) |
| Loss per share - basic and diluted | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Weighted average number of common shares outstanding | 54,785,504 | 46,068,547 | 50,450,842 | 46,051,716 |

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Lithoquest Diamonds Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the six months ended September 30, 2019 and 2018

(Expressed in Canadian Dollars)

| | 2019 | 2018 |
|---|--------------------|---------------------|
| Cash flow used in operating activities | | |
| Loss for the period | \$ (376,657) | \$ (822,926) |
| Item not affecting cash | | |
| Share-based payments | - | 171,200 |
| | <u>(376,657)</u> | <u>(651,726)</u> |
| Non-cash working capital items (note 5) | 46,518 | 289,919 |
| | <u>(330,139)</u> | <u>(361,807)</u> |
| Cash flow used in investing activities | | |
| Exploration and evaluation asset | (1,023,738) | (1,703,057) |
| | <u>(1,023,738)</u> | <u>(1,703,057)</u> |
| Cash flow from financing activities | | |
| Proceeds from the issuance of shares | 978,000 | - |
| Proceeds from the exercise of warrants | - | 45,775 |
| Share issue costs | (34,376) | - |
| | <u>943,624</u> | <u>45,775</u> |
| Decrease in cash | (410,253) | (2,019,089) |
| Cash, beginning of year | 1,172,346 | 4,394,892 |
| Cash, end of period | \$ 762,093 | \$ 2,375,803 |

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

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Six months ended September 30, 2019 and 2018

(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 1100, 1111 Melville Street, Vancouver BC V6E 3V6. The Company is listed on the TSX Venture Exchange (“TSX-V”) under the symbol “LDI”.

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 September 30, 2019, the Company has a working capital of \$367,703, representing funds available to cover on-going operating costs. The Company has incurred negative cash flows from operations, recorded a loss of \$376,657 for the six months ended September 30, 2019, and has an accumulated deficit of \$5,686,170 as at September 30, 2019.

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, 2019, 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, 2019, unless otherwise stated.

These financial statements were authorized for issue by the Board of Directors of the Company on November 27, 2019.

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements
Six months ended September 30, 2019 and 2018
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3. Exploration and Evaluation Asset

North Kimberly Diamond Project

| | |
|---|---------------------|
| Balance, March 31, 2019 | \$ 3,060,303 |
| Land administration | 52,273 |
| Exploration and evaluation expenditures | 971,465 |
| Balance, September 30, 2019 | \$ 4,084,041 |

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, 2019 | 46,068,547 | \$ 8,001,150 |
| Shares issued in private placement financing, net of issuance costs | 9,780,000 | 894,724 |
| Balance, September 30, 2019 | 55,848,547 | \$ 8,895,874 |

On July 10, 2019, the Company closed a non-brokered private placement offering (the "Offering") in which it received total gross proceeds of \$978,000 and issued 9,780,000 common shares. Concurrent with the closing of the Offering, the Company issued Royalty Certificates for Net Smelter Returns Royalties entitling holders to royalties aggregating 0.978% over its North Kimberley Diamond Project. The transaction was accounted for using the residual method with \$929,100 reflected in share capital based on the closing price of the Company's shares on the Toronto Venture Exchange of \$0.095, and the remainder of the gross proceeds of \$48,900 assigned to the Net Smelter Returns Royalties and reflected in contributed surplus. The issuance costs, consisting of legal fees, finder's fees and regulatory costs, were \$34,376.

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4. Share Capital - continued

Stock Options

There was no change during the period in share purchase options outstanding.

As at September 30, 2019, the following options were outstanding and exercisable:

| Expiry Date | Remaining Contractual Life (in years) | Number of Options | Exercise Price |
|------------------------------------|--|--------------------------|-----------------------|
| November 23, 2022 | 3.2 | 2,500,000 | \$ 0.27 |
| January 2, 2023 | 3.3 | 500,000 | 0.40 |
| April 5, 2023 | 3.5 | 200,000 | 0.56 |
| July 12, 2023 | 3.8 | 160,000 | 0.60 |
| December 17, 2023 | 4.2 | 1,040,000 | 0.16 |
| Balance, September 30, 2019 | | 4,400,000 | \$ 0.28 |

During the period the Company recognized \$nil (2018 - \$171,200) in share-based payments. As of September 30, 2019, all options issued under the Plan were fully vested.

Warrants

There was no change during the period to share purchase warrants outstanding.

As at September 30, 2019, 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 | \$ 0.35 |

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5. Additional Cash Flow Information

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

| | September 30, 2019 | September 30, 2018 |
|--|-------------------------------|-----------------------|
| Sales taxes recoverable | \$ (50,304) | \$ (71,386) |
| Prepaid expenses | (65,141) | 90,410 |
| Accounts payable and accrued liabilities | 161,963 | 270,895 |
| | \$ 46,518 | \$ 289,919 |

6. Stamp Duty

Accounts payable and accrued liabilities includes a provision for stamp duty of \$268,000 (March 2019 - \$268,000). Stamp duty in Western Australia arises on the transfer of property, including mining tenements, and applies at the rate of 5.15% where the value of the property exceeds AUD\$2,000,000. This provision was recorded at the time of the reverse take-over transaction which transferred indirect ownership of the North Kimberley tenements to the Company. The Company subsequently obtained a formal appraisal of the property which sets the value at less than the AUD\$2,000,000 minimum threshold, implying that no stamp duty is payable and the Company has made such filings with the Government of Western Australia, Office of State Revenue ("OSR").

The OSR subsequently engaged an independent valuator to prepare a second formal appraisal of the property. Based on the results of that report, which assessed the property at AUD\$5,000,000, the OSR issued a duties assessment notice to the Company on September 25, 2019 of AUD\$469,732, consisting of AUD\$251,415 duty, and AUD\$218,317 penalties and costs.

Following receipt of the notice, and with the OSR's understanding, the Company engaged a third independent valuator for the purpose of critiquing the first two reports and producing a third independent valuation report. The Company has received a draft version of that report which concludes that the preferred value of the property is less than the AUD\$2,000,000 minimum threshold.

The Company intends to use all available procedures to object to the OSR's duties assessment notice. Should the ultimate determination be made that the fair value of the property at the time of the reverse take-over transaction was in excess of AUD\$2,000,000, administrative penalties of up to 100% of the calculated amount of stamp duty payable may be applied. The Company believes that no such penalty amounts will be due, however, it is not known at this time what amount, if any, will ultimately be payable or when the matter will be settled. No stamp duty or penalties will be payable if the ultimate fair value determination by the OSR is less than AUD\$2,000,000.

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7. Subsequent Event

Subsequent to the period end, the Company received the approval of the TSX Venture Exchange to amend the terms of a total of 11,838,636 outstanding share purchase warrants (the “Warrants”)

Upon completion, the term of the Warrants will be extended to November 23, 2021 and the exercise price will be reduced to \$0.15 per Common Share. In addition, the Warrants will be revised to include an acceleration clause such that the term of the Warrants will be reduced to 30 days in the event the closing price of the Common Shares on the TSX Venture Exchange exceeds \$0.15 by 25% or more for ten consecutive trading dates.

The remaining 5,600,750 warrants outstanding at September 30, 2019, consisting of warrants issued in connection with the share exchange at the time of the reverse take-over transaction and finder’s compensation warrants, did not qualify for extension under TSX Venture Exchange rules and therefore expired on November 23, 2019.