

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Financial Statements

Nine Months ended December 31, 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	December 31, 2019	March 31, 2019
ASSETS		
Current Assets		
Cash	\$ 57,638	\$ 1,172,346
Sales taxes recoverable	52,476	46,253
Prepaid expenses	77,616	5,171
Total current assets	187,730	1,223,770
Exploration and evaluation asset (note 3)	4,427,638	3,060,303
Total assets	\$ 4,615,368	\$ 4,284,073
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 395,962	\$ 399,296
Equity		
Share capital (note 4)	8,895,874	8,001,150
Contributed surplus	1,528,040	1,193,140
Deficit	(6,204,508)	(5,309,513)
Total equity	4,219,406	3,884,777
Total liabilities and equity	\$ 4,615,368	\$ 4,284,073

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

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, 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	-	-	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
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
Share-based payments (warrant repricing)	-	-	286,000	-	286,000
Comprehensive loss	-	-	-	(894,995)	(894,995)
Balance, December 31, 2019	55,848,547	\$ 8,895,874	\$ 1,528,040	\$ (6,204,508)	\$ 4,219,406

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, 2019 and 2018

(Expressed in Canadian Dollars)

	Three Months		Nine Months	
	2019	2018	2019	2018
Expenses				
Foreign exchange (gain) loss	\$ 3,555	\$ 504	\$ (943)	\$ 13,718
Management and consulting fees	88,562	138,188	258,153	390,213
Marketing and corporate development	8,774	112,017	109,007	349,458
Office and general	11,779	21,596	49,934	58,338
Professional fees	62,372	16,244	90,529	49,769
Regulatory and shareholder services	4,696	5,545	10,129	13,027
Share-based payments (<i>note 4</i>)	286,000	151,500	286,000	322,700
Termination of property acquisition	50,000	-	50,000	-
Travel	3,432	18,224	47,591	100,079
Loss before other item	(519,170)	(463,818)	(900,400)	(1,297,302)
Other item				
Interest income	832	6,530	5,405	17,088
Loss and comprehensive loss	\$ (518,338)	\$ (457,288)	\$ (894,995)	\$ (1,280,214)
Loss per share - basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding	55,357,563	46,068,547	52,256,620	46,057,347

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Lithoquest Diamonds Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

	2019	2018
Cash flow used in operating activities		
Loss for the period	\$ (894,995)	\$ (1,280,214)
Item not affecting cash		
Share-based payments	286,000	322,700
	(608,995)	(957,514)
Non-cash working capital items (note 5)	(82,002)	130,957
	(690,997)	(826,557)
Cash flow used in investing activities		
Exploration and evaluation asset	(1,367,335)	(2,084,995)
	(1,367,335)	(2,084,995)
Cash flow from financing activities		
Proceeds from the issuance of shares	978,000	45,775
Share issue costs	(34,376)	
	943,624	45,775
Decrease in cash	(1,114,708)	(2,865,777)
Cash, beginning of year	1,172,346	4,394,892
Cash, end of period	\$ 57,638	\$ 1,529,115

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Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended December 31, 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 “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, 2019, the Company has a working capital deficit of \$208,232. The Company has incurred negative cash flows from operations, recorded a loss of \$894,995 for the nine months ended December 31, 2019, and has an accumulated deficit of \$6,204,508 as at December 31, 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 February 28, 2020.

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

3. Exploration and Evaluation Asset

North Kimberly Diamond Project

Balance, March 31, 2019	\$ 3,060,303
Land administration	51,597
Exploration and evaluation expenditures	1,315,738
Balance, December 31, 2019	\$ 4,427,638

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, December 31, 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.

Lithoquest Diamonds Inc.

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4. Share Capital - continued

Stock Options

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

As at December 31, 2019, the following options were outstanding and exercisable:

Expiry Date	Remaining Contractual Life (in years)	Number of Options	Exercise Price
November 23, 2022	2.9	2,500,000	\$ 0.27
January 2, 2023	3.0	500,000	0.40
April 5, 2023	3.3	200,000	0.56
July 12, 2023	3.5	160,000	0.60
December 17, 2023	4.0	1,040,000	0.16
Balance, December 31, 2019		4,400,000	\$ 0.28

During the period the Company recognized \$nil (2018 - \$322,700) in share-based payments. As of December 31, 2019, all options issued under the Plan were fully vested.

Warrants

The continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted average exercise price
Outstanding, March 31, 2019	17,439,386	\$ 0.35
Warrants expired	(5,600,750)	(0.30)
Outstanding, December 31, 2019	11,838,636	\$ 0.15

As at December 31, 2019, the following warrants were outstanding and exercisable:

Expiry Date	Number of Warrants	Exercise Price
November 23, 2021	11,838,636	\$ 0.15

During the period, 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, extending the term of the warrants to November 23, 2021 and reducing the exercise price to \$0.15 per common share.

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4. Share Capital - continued

In addition, the warrants were 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 \$0.185 or more for ten consecutive trading dates.

A total of 5,600,750 warrants, 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.

The fair value of \$286,000 for the warrant repricing and extension was calculated using the Black-Scholes option pricing model with the following assumptions: risk free interest rate – 1.6%, expected life – 2 years, annualized volatility – 100%, share price - \$0.07, dividend rate – 0%.

5. Additional Cash Flow Information

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

	December 31, 2019	December 31, 2018
Sales taxes recoverable	\$ (6,223)	\$ (41,842)
Prepaid expenses	(72,445)	194,721
Accounts payable and accrued liabilities	(3,334)	(21,922)
	\$ (82,002)	\$ 130,957

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.

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6. Stamp Duty - continued

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 that report which concludes that the preferred value of the property is less than the AUD\$2,000,000 minimum threshold. The Company has prepared a formal objection to the OSR's duties assessment notice and is currently in discussions with the OSR's Review team.

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.