

**Lithoquest Diamonds Inc.**  
**Consolidated Financial Statements**

**Years ended March 31, 2019 and 2018**

**(Expressed in Canadian Dollars)**



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## **INDEPENDENT AUDITORS' REPORT**

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To the Shareholders of Lithoquest Diamonds Inc.

### **Opinion**

We have audited the accompanying consolidated financial statements of Lithoquest Diamonds Inc. (the "Company") which comprise the consolidated statements of financial position as at March 31, 2019 and 2018, and the consolidated statements of changes in equity, comprehensive loss and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1 of the accompanying consolidated financial statements, which indicates that the Company had a loss of \$1,523,454 for the year ended March 31, 2019 and, as of that date, the Company had an accumulated deficit of \$5,309,513. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other Information**

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Fernando J. Costa.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia

July 24, 2019

## Lithoquest Diamonds Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at	March 31, 2019	March 31, 2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,172,346	\$ 4,394,892
Sales taxes recoverable	46,253	45,176
Prepaid expenses	5,171	218,133
<b>Total current assets</b>	<b>1,223,770</b>	<b>4,658,201</b>
<b>Exploration and evaluation asset (note 7)</b>	<b>3,060,303</b>	<b>747,837</b>
<b>Total assets</b>	<b>\$ 4,284,073</b>	<b>\$ 5,406,038</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 399,296	\$ 362,238
<b>Equity</b>		
Share capital (note 8)	8,001,150	7,957,019
Contributed surplus	1,193,140	872,840
Deficit	(5,309,513)	(3,786,059)
<b>Total equity</b>	<b>3,884,777</b>	<b>5,043,800</b>
<b>Total liabilities and equity</b>	<b>\$ 4,284,073</b>	<b>\$ 5,406,038</b>

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

Commitments (note 7)

Subsequent event (note 14)

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.

Consolidated Statements of Changes in Equity

For the years ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

	Share Capital					Total Equity
	Number of Common Shares	Amount	Subscriptions Receivable	Contributed Surplus	Deficit	
<b>Balance, March 31, 2017</b>	<b>14,666,668</b>	<b>\$ 692,882</b>	<b>\$ (132,882)</b>	<b>\$ 15,000</b>	<b>\$ (304,893)</b>	<b>\$ 270,107</b>
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	4,839,321	-	74,250	-	4,913,571
Share-based payments	-	-	-	796,190	-	796,190
Comprehensive loss	-	-	-	-	(3,481,166)	(3,481,166)
<b>Balance, March 31, 2018</b>	<b>45,911,963</b>	<b>7,957,019</b>	<b>-</b>	<b>872,840</b>	<b>(3,786,059)</b>	<b>5,043,800</b>
Shares issued for cash, net of issuance costs						
- on exercise of warrants	144,584	39,331	-	-	-	39,331
- on exercise of finder's warrants	12,000	4,800	-	(2,400)	-	2,400
Share-based payments	-	-	-	322,700	-	322,700
Comprehensive loss	-	-	-	-	(1,523,454)	(1,523,454)
<b>Balance, March 31, 2019</b>	<b>46,068,547</b>	<b>\$ 8,001,150</b>	<b>\$ -</b>	<b>\$ 1,193,140</b>	<b>\$ (5,309,513)</b>	<b>\$ 3,884,777</b>

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

**Lithoquest Diamonds Inc.**

Consolidated Statements of Comprehensive Loss

For the years ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

	2019	2018
<b>Expenses</b>		
Foreign exchange loss	\$ 17,511	\$ 2,167
Management and consulting fees <i>(note 9)</i>	486,238	372,263
Marketing and corporate development	441,279	98,678
Office and general	77,435	35,970
Professional fees	51,628	106,225
Regulatory and shareholder services	21,346	21,514
Share-based payments <i>(note 8)</i>	322,700	796,190
Travel	126,095	56,617
<b>Loss before other items</b>	<b>(1,544,232)</b>	<b>(1,489,624)</b>
<b>Other items</b>		
Interest income	20,778	6,647
Listing expense <i>(note 6)</i>	-	(1,998,189)
	20,778	(1,991,542)
<b>Net loss and comprehensive loss</b>	<b>\$ (1,523,454)</b>	<b>\$ (3,481,166)</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.12)</b>
<b>Weighted average number of common shares outstanding</b>	<b>46,060,380</b>	<b>28,025,690</b>

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

## Lithoquest Diamonds Inc.

Consolidated Statements of Cash Flows

For the years ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

	2019	2018
<b>Cash flow used in operating activities</b>		
Net loss for the year	\$ (1,523,454)	\$ (3,481,166)
Items not affecting cash:		
Share-based payments (note 8)	322,700	796,190
Non-cash portion of listing expense (note 6)	-	1,531,916
	<b>(1,200,754)</b>	<b>(1,153,060)</b>
Non-cash working capital items (note 11)	<b>248,943</b>	<b>(87,398)</b>
	<b>(951,811)</b>	<b>(1,240,458)</b>
<b>Cash flow used in investing activity</b>		
Exploration and evaluation asset (note 7)	<b>(2,312,466)</b>	<b>(575,873)</b>
<b>Cash flow from financing activities</b>		
Proceeds from the exercise of warrants	45,775	-
Share issue costs	<b>(4,044)</b>	<b>(239,692)</b>
Cash acquired from reverse takeover transaction	-	42,930
Proceeds from the issuance of units	-	6,068,863
Subscriptions received	-	132,882
	<b>41,731</b>	<b>6,004,983</b>
<b>Increase (decrease) in cash</b>	<b>(3,222,546)</b>	<b>4,188,652</b>
<b>Cash, beginning of year</b>	<b>4,394,892</b>	<b>206,240</b>
<b>Cash, end of year</b>	<b>\$ 1,172,346</b>	<b>\$ 4,394,892</b>

### Non-cash investing and financing activities

Issuance of common shares in connection with reverse takeover transaction	\$	-	\$	1,496,616
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There were no amounts of cash paid for interest or income taxes for the periods presented.

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



## **Lithoquest Diamonds Inc.**

Notes to the Consolidated Financial Statements  
For the years ended March 31, 2019 and 2018  
(Expressed in Canadian Dollars)

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### **1. Nature of the Company and Continuance of Operations**

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Lithoquest Diamonds Inc. (“Lithoquest” or the “Company”) was incorporated on February 25, 1986 in Alberta, Canada. In April 2014 it was continued from the jurisdiction of Alberta to British Columbia, Canada.

On November 23, 2017, the Company changed its name to Lithoquest Diamonds Inc. from Consolidated Westview Resource Corp. (“Westview”) upon completing a transaction (the “Acquisition” or “RTO”) with a private company Lithoquest Diamonds Inc., which changed its name to Lithoquest Holdings Inc. (“Holdings”).

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 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 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 March 31, 2019, the Company has a working capital of \$824,474, representing funds available to cover on-going operating costs. The Company has incurred negative cash flows from operations, recorded a loss of \$1,523,454 for the year ended March 31, 2019, and has an accumulated deficit of \$5,309,513 as at March 31, 2019.

## **Lithoquest Diamonds Inc.**

Notes to the Consolidated Financial Statements  
For the years ended March 31, 2019 and 2018  
(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies**

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a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue in accordance with a resolution from the Board of Directors on July 24, 2019.

b) Basis of presentation

These consolidated financial statements are expressed in Canadian dollars and have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting on a going concern basis. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements as if the policies have always been in effect.

c) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Holdings and Lithoquest Diamonds (Australia) Pty Ltd. (formerly Primeform Investments Pty Ltd.) which was incorporated in Australia. All intercompany balances and transactions have been eliminated upon consolidation.

d) Foreign currency

The functional and presentation currency of the Company is the Canadian dollar. The functional currency of the Company’s subsidiary is the Canadian dollar which is determined to be the currency of the primary economic environment in which the subsidiary operate.

e) Foreign currency transactions

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

f) Cash and cash equivalents

Cash in the consolidated statements of financial position is comprised of cash in banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

## **Lithoquest Diamonds Inc.**

Notes to the Consolidated Financial Statements  
For the years ended March 31, 2019 and 2018  
(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies - continued**

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#### g) Exploration and evaluation assets

Once the legal rights to a property have been acquired, all costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized against projected income using the units-of-production method over estimated recoverable reserves.

Management annually assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if the property has been abandoned, there are unfavourable changes in the property economics, there are restrictions on development, or when there has been an undue delay in development, which exceeds three years. In the event that estimated discounted cash flows expected from its use or eventual disposition is determined by management to be insufficient to recover the carrying value of the property, the carrying value is written-down to the estimated recoverable amount.

The recoverability of mineral properties and exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

#### h) Share-based payments

Share-based payments to employees and others providing similar services are measured at the estimated fair value of the instruments issued on the grant date and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the 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 amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to equity settled share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related equity settled share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from equity settled share-based payment reserve.

Share-based compensation expense relating to deferred share units is accrued over the vesting period of the units based on the quoted market price. As these awards can be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

## **Lithoquest Diamonds Inc.**

Notes to the Consolidated Financial Statements  
For the years ended March 31, 2019 and 2018  
(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies - continued**

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i) Decommissioning, restoration and similar liabilities

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the units-of-production or the straight-line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

The Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is immaterial.

j) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

k) Share issuance costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

## **Lithoquest Diamonds Inc.**

Notes to the Consolidated Financial Statements  
For the years ended March 31, 2019 and 2018  
(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies - continued**

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#### l) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting period end date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting period end date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### m) Financial instruments

Effective April 1, 2018, the Company adopted IFRS 9, Financial Instruments (“IFRS-9”). The standard was adopted on a retrospective basis and its implementation had no impact on the Company’s consolidated financial statements.

#### **Financial Assets**

Financial assets are measured at fair value on initial recognition of the instrument and classified as financial assets at fair value through profit and loss (“FVTPL”), amortized cost, or fair value through other comprehensive income (“FVTOCI”). The classification depends on the Company’s business model for managing the financial assets and terms of the related cash flow. The Company determines the classification of its financial assets at initial recognition. Subsequent measurement of financial instruments is based on their initial classification.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument - by - instrument basis) to designate them as at FVTOCI.

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets held at FVTPL are included in the statements of comprehensive loss in the period in which they arise. The Company’s cash is classified as FVTPL.

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. The Company does not have any financial assets classified as FVTOCI.

## **Lithoquest Diamonds Inc.**

Notes to the Consolidated Financial Statements  
For the years ended March 31, 2019 and 2018  
(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies - continued**

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#### m) Financial instruments (continued)

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of these financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost less any impairment using the effective interest method. The Company does not have any financial assets classified at amortized cost.

#### **Financial liabilities**

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

FVTPL – This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive loss.

Amortized cost – Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company's accounts payable is classified at amortized cost.

#### **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It is becoming probable that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets, with the exception of financial assets measured at amortized cost, where the Company recognizes loss allowances for expected credit losses ("ECLs"). Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability - weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

## **Lithoquest Diamonds Inc.**

Notes to the Consolidated Financial Statements  
For the years ended March 31, 2019 and 2018  
(Expressed in Canadian Dollars)

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### **3. Significant Accounting Estimates and Judgements**

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The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

#### *Significant accounting estimates*

- i. the measurement of deferred income tax assets and liabilities; and
- ii. the inputs used in accounting for share-based payments.

#### *Significant accounting judgments*

- i. the assessment of indications of impairment of the mineral property and related determination of the net realizable value and write-down of the mineral property where applicable
- ii. the determination of categories of financial assets and financial liabilities; and
- iii. the evaluation of the Company's ability to continue as a going concern.

## Lithoquest Diamonds Inc.

Notes to the Consolidated Financial Statements  
For the years ended March 31, 2019 and 2018  
(Expressed in Canadian Dollars)

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### 4. Adoption of New or Amended Accounting Standards

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The following new standards, and amendments to standards and interpretations, are effective for the period ended March 31, 2019, and have been applied in preparing these consolidated financial statements:

**IFRS 9 *Financial Instruments*** – In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments (“IFRS 9”) to replace IAS 30 – Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking ‘expected-loss’ impairment model, as well as a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted IFRS 9 retrospectively, without restatement of prior year consolidated financial statements.

The Company assessed that there was no significant impact to the consolidated financial statements on the adoption of classification and measurement of its financial instruments, the classification under the new and old standard is set out below:

Financial Instrument	IAS 39	IFRS 9
Cash	FVTPL	FVTPL
Accounts payable	Other financial liabilities	Amortized cost

### 5. New Accounting Standards Issued but Not Yet Effective

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A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended March 31, 2019, and have not been applied in preparing the consolidated financial statements.

Accounting standards effective for annual periods beginning on or after January 1, 2019

Effective for annual periods beginning on January 1, 2019

**IFRS 16 Leases** – IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.



## **Lithoquest Diamonds Inc.**

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### **5. New Accounting Standards Issued but Not Yet Effective - continued**

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IFRIC 23 Uncertainty over Income Tax Treatments – IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

These new standards, amendments and interpretations have not been early adopted in the consolidated financial statements and are not expected to have a material effect on the Company's future results and financial position.

### **6. Acquisition**

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On November 23, 2017, the Company closed a transaction with Holdings whereby the Company acquired all of the issued and outstanding common shares of Holdings and Holdings became a wholly-owned subsidiary of the Company. Under the terms of the RTO, the Company acquired 100% of the issued and outstanding shares of Holdings by issuing to the former shareholders of Holdings 21,391,668 common shares of the Company together with 5,347,920 share purchase warrants. Each share purchase warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.30 for a period of 24 months from the closing of the RTO (the "Acquisition Warrants").

Concurrent with the RTO, the Company completed a financing for gross proceeds of \$5,123,863 for 18,977,272 units at a price of \$0.27 per unit. Each unit consisted of one common share of the Company and one half of one warrant, each full warrant entitling the holder to acquire one common share in the Company at \$0.40 for a period of two years. The Company issued 384,914 finder's warrants which are exercisable at \$0.27 per share for a period of two years. The Company also granted 2,500,000 stock options to the directors, officers and consultants of the Company. The stock options are exercisable at \$0.27 per share for a period of five years.

In accordance with IFRS 3, Business Combinations, the substance of the Acquisition was a reverse acquisition of a non-operating company. The transaction did not constitute a business combination since Westview did not meet the definition of a business under the standard. As a result, under IFRS, the Transaction was accounted for as a capital transaction with Holdings being identified as the acquirer and the transaction being measured at the fair value of the equity consideration issued to Westview.

## Lithoquest Diamonds Inc.

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### 6. Acquisition - continued

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IFRS 2, Share-based Payments, applies to transactions where an entity grants equity instruments and cannot identify specifically some or all of the goods or services received in return. Since Holdings shareholders had been issued shares with a fair value in excess of the net assets received, IFRS 2 dictates that the difference is recognized in comprehensive loss as a reverse transaction cost.

The fair value of the consideration in the Acquisition is determined by reference to the completed private placement at \$0.27 per share. Accordingly, the value of the share capital (5,543,023 shares) owned by the former shareholders of Westview at the time of the Transaction was \$1,496,616.

The allocation of the purchase price of the RTO cost is as follows:

#### Purchase price

Number of shares held by former shareholders of Westview	5,543,023
Share price	\$ 0.27
<b>Total consideration</b>	<b>\$ 1,496,616</b>
Fair value of net assets of Westview prior to the Acquisition	
Cash	\$ 42,930
Accounts payable	(78,230)
<b>Net liability assumed</b>	<b>(35,300)</b>
	1,531,916
<b>Transaction costs</b>	<b>466,273</b>
<b>Listing expense</b>	<b>\$ 1,998,189</b>

### 7. Exploration and Evaluation Asset

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#### North Kimberly Diamond Project

<b>Balance, March 31, 2017</b>	<b>\$ 171,964</b>
Land administration	92,662
Exploration and evaluation expenditures	483,211
<b>Balance, March 31, 2018</b>	<b>747,837</b>
Land administration	123,181
Exploration and evaluation expenditures	2,189,285
<b>Balance, March 31, 2019</b>	<b>\$ 3,060,303</b>

## Lithoquest Diamonds Inc.

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### 7. Exploration and Evaluation Asset - continued

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On January 18, 2017, the Company, through its the wholly-owned Australian subsidiary, was granted exploration licenses on mineral properties (“Tenement”) located in the King George River region of Western Australia. The licenses expire on January 17, 2022. Pursuant to the terms and conditions of the licenses issued by the Department of Mines and Petroleum, Western Australia, the Company is required to incur minimum annual expenditures for each of the licenses as follows:

	<b>License E80/5029</b>	<b>Licence E80/5030</b>
	<b>AUS\$</b>	<b>AUS\$</b>
Commitment (January 18, 2017 – January 17, 2020)	198,000	108,000
Commitment (January 18, 2020 – January 17, 2022)	297,000	162,000

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In addition to the minimum yearly exploration expenditures above, the Company is required to report the exploration work done by June 30 of each year and to participate in the annual Mining Rehabilitation Fund (“MRF”) based on the amounts of disturbances on the properties. Furthermore, the Company is also required to comply with the local Environmental Protection Act and Protection Regulations, which also requires the Company to comply with the Provisions of the Aboriginal Heritage Act 1972 and applicable regulations.

On December 16, 2016 (“Grant Date”), according to the Heritage Protection and Mineral Exploration Agreement for the licenses noted above, the Company entered into an agreement with a local Aboriginal Corporation whereby the Company will comply with the laws and regulations and contribute within 60 days of each anniversary of the Grant Date until the Tenement expires or is surrendered, to the community the greater of:

- 3% of the annual on-ground exploration expenditure for the year ending on the anniversary of the Grant Date; and
- 3% of the minimum statutory annual expenditure.

The Company also agreed to take out indemnity insurance to the value of AUS\$10,000,000 for the entire term of the agreement.

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### 8. Share Capital

#### Authorized share capital

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

#### Escrow shares

In connection with the RTO transaction with Holdings as described in note 6, the Company entered into an escrow agreement, whereby 8,867,916 common shares were held in escrow and are scheduled for release in accordance with the terms of the escrow agreement. As at March 31, 2019, there were 5,320,750 in escrow.

#### Issued shares

The issued and outstanding common shares consist of the following:

	Number of Common Shares	Amount
<b>Balance, March 31, 2017</b>	<b>14,666,668</b>	<b>\$ 692,882</b>
Shares issued for finder's fee (c)	2,000,000	15,000
Shares issued in private placement (d)	4,725,000	913,200
Cancellation of Holdings' shares (e)	(21,391,668)	-
RTO transaction and financing:		
Shares held by existing Company's shareholders (note 6)	5,543,023	1,496,616
Shares issued in exchange for Holdings' shares (e)	21,391,668	-
Shares issued in private placement financing (f)	18,977,272	5,123,863
Costs incurred in connection with the financing	-	(284,542)
<b>Balance, March 31, 2018</b>	<b>45,911,963</b>	<b>7,957,019</b>
Shares issued on exercise of warrants, net of issuance costs (a)	144,584	39,331
Shares issued on exercise of finder's warrants (b)	12,000	4,800
<b>Balance, March 31, 2019</b>	<b>46,068,547</b>	<b>\$ 8,001,150</b>

- (a) Between April 6, 2018 and June 18, 2018, the Company issued a total of 144,584 common shares upon the exercise of warrants. The price per share was \$0.30 for proceeds of \$39,331 net of issuance costs. There was no value allocated to the warrants exercised.
- (b) On April 10, 2018, 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.
- (c) On June 13, 2017, Holdings issued 2,000,000 common shares with a fair value of \$15,000 as a finder's fee in connection with the acquisition of mineral exploration licenses .

## **Lithoquest Diamonds Inc.**

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### **8. Share Capital - continued**

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- (d) On August 1 and August 15, 2017, Holdings completed a private placement of 4,725,000 units at \$0.20 per unit, each unit consisting of one common share and one-half of one share purchase warrant, for gross proceeds of \$945,000. Each whole share purchase warrant entitles the holder to purchase a common share for \$0.30 per share for 24 months from the date when the Company's shares start trading on the TSX Venture Exchange. In connection with the placement, Holdings paid a finder's fee of \$2,400 in cash and issued 12,000 finder's warrants to purchase common shares, at a price of \$0.20 per common share, exercisable for 24 months from the date when the Company's shares start trading on the TSX Venture Exchange and paid a corporate advisory fee of \$27,000. The fair value of \$2,400 for the 12,000 finder's warrants, which was included in share issuance costs, was estimated using Black-Scholes Option Pricing model with the following assumptions: risk-free interest rate 1.10%, expected life of warrants 2 years, annualized volatility 150%, forfeiture rate 0% and dividend rate 0%.
- (e) In connection with the Acquisition (see note 6), the Company issued 21,391,668 common shares, 5,347,920 common share purchase warrants exercisable at \$0.30 until November 23, 2019.
- (f) On November 23, 2017, concurrent with the Acquisition, the Company completed a private placement of 18,977,272 units at a price of \$0.27 per unit for gross proceeds of \$5,123,863. Each unit consists of one common share and one half of one purchase warrant, each whole purchase warrant entitling the holder to purchase one common share at \$0.40 for two years. In connection with the financing, the Company issued 384,914 finder's warrants, each warrant exercisable to purchase a common share at \$0.27 for two years. The fair value of \$74,250 for the finder's warrants was determined using the Black-Scholes pricing model. with the following assumptions: risk free interest rate – 1.10%, expected life – 2 years, annualized volatility – 150%, share price - \$0.27, dividend rate – 0%.

#### **Stock Options**

The Company has established a “rolling” Share Option Plan (the “Plan”) in compliance with the TSX Venture Exchange's policy for granting share options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options have expiry dates of no later than 10 years after the grant date. Vesting of options is determined by the Board of Directors at the time of grant.

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### 8. Share Capital – continued

#### Stock Options (continued)

The continuity of share purchase options is as follows:

	Number of Options	Weighted Average Exercise Price
<b>Outstanding, March 31, 2017</b>	-	\$ -
Granted (d)(e)	3,000,000	0.29
<b>Outstanding, March 31, 2018</b>	<b>3,000,000</b>	<b>0.29</b>
Granted (a)(b)(c)	1,400,000	0.27
<b>Outstanding, March 31, 2019</b>	<b>4,400,000</b>	<b>\$ 0.28</b>

- (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.
- (d) On November 23, 2017, the Company granted 2,500,000 options to Directors, Officers and Consultants of the Company. The options vested on the grant date with an exercise price of \$0.27 per share for 5 years. The stock options were valued at \$614,000 using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years, risk-free rate of 1.32%, expected dividend yield of 0%, and expected volatility of 150%. The share price at the time of the grant was \$0.27.

## Lithoquest Diamonds Inc.

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### 8. Share Capital – continued

#### Stock Options (continued)

- (e) On January 2, 2018, the Company granted 500,000 stock options to consultants of the Company. Options vested on grant date and with an exercise price of \$0.40 for 5 years. The stock options were valued at \$182,190 using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years, risk-free rate of 1.92%, expected dividend yield of 0%, and expected volatility of 150%. The share price at the time of the grant was \$0.40.

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

<b>Expiry Date</b>	<b>Remaining Contractual Life (in years)</b>	<b>Number of Options</b>	<b>Exercise Price</b>
November 23, 2022	3.7	2,500,000	\$ 0.27
January 2, 2023	3.8	500,000	\$ 0.40
April 5, 2023	4.0	200,000	\$ 0.56
July 12, 2023	4.3	160,000	\$ 0.60
December 17, 2023	4.7	1,040,000	\$ 0.16
		<b>4,400,000</b>	

During the year the Company recognized \$322,700 (2018 - \$796,190) as share-based payments. As of March 31, 2019, all options issued under the Plan were fully vested.

#### Warrants

The continuity of share purchase warrants is as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Outstanding, March 31, 2017</b>	-	\$ -
Acquisition Warrants issued	5,347,920	0.30
Warrants issued – private placement	2,362,500	0.30
Agent warrants issued	12,000	0.20
Warrants issued - private placement	9,488,636	0.40
Finder Warrants issued	384,914	0.27
<b>Outstanding, March 31, 2018</b>	<b>17,595,970</b>	<b>0.35</b>
<b>Warrants exercised</b>	<b>(156,584)</b>	<b>(0.29)</b>
<b>Outstanding, March 31, 2019</b>	<b>17,439,386</b>	<b>\$ 0.35</b>

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### 8. Share Capital - continued

#### Warrants (continued)

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

<b>Expiry Date</b>	<b>Number of Warrants</b>	<b>Exercise Price</b>
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

### 9. Related-Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key management personnel receive compensation in the form of short-term employee benefits. Key management personnel include the directors and officers of the Company. The remuneration of key management during the years ended March 31, 2019 and 2018 is as follows:

	<b>2019</b>	<b>2018</b>
Management fees	\$ 252,000	\$ 306,000
Share-based payments	182,840	448,220
	\$ 434,840	\$ 754,220

At March 31, 2019, accounts payable include amounts due to related parties of \$16,459 (2018 - \$13,000). These amounts are due on demand, non-interest bearing and are unsecured.

These transactions were in the normal course of business and were measured at the exchange amount. Amounts due to related parties are unsecured, non-interest-bearing, and have no formal terms of repayment.



## Lithoquest Diamonds Inc.

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### 10. Income Taxes

The Company has losses carried forward of \$2,309,604 available to reduce income taxes in future years which expire between 2036 and 2039.

The Company has not recognized any deferred income tax assets. The Company recognizes deferred income tax assets based on the extent to which it is probable that sufficient taxable income will be realized during the carry forward periods to utilize all deferred tax assets.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates for the years ended March 31, 2019 and 2018:

	2019	2018
Combined statutory income tax rate	27.0%	26.7%
Income tax recovery at statutory rate	\$ 411,332	\$ 928,690
Effect of income taxes of:		
Permanent difference and others	(213,216)	(537,457)
Non-deductible items	(214)	(3,049)
Difference between income tax rates	641	-
Change in tax rate	-	7,821
Change in deferred tax assets not recognized	(198,543)	(396,005)
Deferred income tax recovery	\$ -	\$ -

The temporary differences that give rise to significant portions of the deferred tax assets not recognized as at March 31, 2019 and 2018 are presented below:

	2019	2018
Non-capital loss carry forwards	\$ 624,748	\$ 409,996
Share issuance costs	52,121	68,330
Deferred tax assets not recognized	(676,869)	(478,326)
	\$ -	\$ -

### 11. Additional Cash Flow Information

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

	March 31, 2019	March 31, 2018
Sales taxes recoverable	\$ (1,077)	\$ (35,876)
Prepaid expenses	212,962	(218,133)
Accounts payable and accrued liabilities	37,058	166,611
	\$ 248,943	\$ (87,398)

## Lithoquest Diamonds Inc.

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### 12. Management of Capital

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The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of its resource property. The Company does not have any externally imposed capital requirements to which it is subject.

The Company considers the aggregate of its share capital, contributed surplus and deficit as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

### 13. Financial Instruments and Financial Risk

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#### Fair Values and Classification of Financial Instruments

The Company's financial instruments consist of cash and accounts payable. Financial instruments are classified into one of the following categories: FVTPL, FVTOC, or amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	March 31, 2019	March 31, 2018
Cash	FVTPL	\$ 1,172,346	\$ 4,394,892
Accounts payable	Amortized cost	399,296	362,238

International Financial Reporting Standards 7, *Financial Instruments: Disclosures*, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Lithoquest Diamonds Inc.

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### 13. Financial Instruments and Financial Risk – continued

#### Fair Values and Classification of Financial Instruments (continued).

Assets measured at fair value on a recurring basis were presented on the Company's consolidated statement of financial position as at March 31, 2019 are as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash	\$ 1,172,346	\$ -	\$ -	\$ 1,172,346

Assets measured at fair value on a recurring basis were presented on the Company's consolidated statement of financial position as at March 31, 2018 are as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash	\$ 4,394,892	\$ -	\$ -	\$ 4,394,892

The fair value of the Company's financial instruments approximates their carrying value as at March 31, 2019 and 2018 because of the demand nature or short-term maturity of these instruments.

#### Financial risk management objectives and policies

The Company's financial instruments include cash and accounts payable. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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### 13. Financial Instruments and Financial Risk – continued

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#### Financial risk management objectives and policies (continued)

##### (i) *Currency risk*

The Company is exposed to foreign currency risk on fluctuations related to cash and accounts payable that are denominated in the Australian dollars. Management does not hedge its exposure to foreign exchange risk and the Company's net exposure to foreign currency as at March 31, 2019 is at below:

	<b>March 31, 2019</b>
Cash	AUS\$ 28,975
Accounts payable	(311,891)
Total in foreign currency	282,916
Net exposure	(14,627)
<b>Canadian dollar equivalents</b>	<b>\$ 268,289</b>

Based on the net Canadian dollar denominated asset and liability exposures as at March 31, 2019, a 10% fluctuation in the Canadian/AUS exchange rates would impact the Company's earnings for the year ended March 31, 2019 by \$26,289.

The Company's expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

The Company does not have any significant foreign currency denominated monetary liabilities. The principal business of the Company is the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval and acceptance by regulatory authorities.

##### (ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term.

The Company has not entered into any derivative instruments to manage interest rate fluctuations.

##### (iii) *Credit risk*

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places these instruments with a high quality financial institution.

## **Lithoquest Diamonds Inc.**

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### **13. Financial Instruments and Financial Risk (continued)**

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#### **Financial risk management objectives and policies (continued)**

##### *(iv) Liquidity risk*

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

### **14. Subsequent Event**

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On July 10, 2019, the Company closed a non-brokered private placement offering (the "Offering") in which it issued 9,780,000 common shares and received 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 Kimberly Diamond Project.