

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Financial Statements

Three Months ended June 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	June 30, 2019	March 31, 2019
ASSETS		
Current Assets		
Cash	\$ 1,228,460	\$ 1,172,346
Sales taxes recoverable	89,259	46,253
Prepaid expenses	38,361	5,171
Total current assets	1,356,080	1,223,770
Exploration and evaluation asset (note 3)	3,720,890	3,060,303
Total assets	\$ 5,076,970	\$ 4,284,073

LIABILITIES AND EQUITY

Current Liabilities

Accounts payable and accrued liabilities (note 6)	\$ 740,939	\$ 399,296
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Equity

Share capital	8,001,150	8,001,150
Shares to be issued (notes 4 and 7)	640,000	-
Contributed surplus	1,193,140	1,193,140
Deficit	(5,498,259)	(5,309,513)
Total equity	4,336,031	3,884,777
Total liabilities and equity	\$ 5,076,970	\$ 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 three months ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

	Share Capital		Shares to be Issued	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 compensation	-	-	-	102,000	-	102,000
Comprehensive loss	-	-	-	-	(463,244)	(463,244)
Balance, June 30, 2018	46,068,547	\$ 8,005,194	\$ -	\$ 972,440	\$ (4,249,303)	\$ 4,728,331
Balance, March 31, 2019	46,068,547	\$ 8,001,150	\$ -	\$ 1,193,140	\$ (5,309,513)	\$ 3,884,777
Proceeds from share subscriptions (<i>notes 4 and 7</i>)	-	-	640,000	-	-	640,000
Comprehensive loss	-	-	-	-	(188,746)	(188,746)
Balance, June 30, 2019	46,068,547	\$ 8,001,150	\$ 640,000	\$ 1,193,140	\$ (5,498,259)	\$ 4,336,031

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

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss
For the three months ended June 30, 2019 and 2018
(Expressed in Canadian Dollars)

	2019	2018
Expenses		
Foreign exchange gain	\$ (3,825)	\$ (237)
Management and consulting fees	85,098	124,425
Marketing and corporate development	65,601	162,664
Office and general	18,179	16,636
Professional fees	10,000	12,511
Regulatory and shareholder services	1,678	2,655
Share-based payments (<i>note 4</i>)	-	102,000
Travel	14,146	48,049
Loss before other item	(190,877)	(468,703)
Other item		
Interest income	2,131	5,459
Loss and comprehensive loss	\$ (188,746)	\$ (463,244)
Loss per share - basic and diluted	\$ (0.00)	\$ (0.01)
Weighted average number of common shares outstanding	46,068,547	46,034,701

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

Lithoquest Diamonds Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

	2019	2018
Cash flow used in operating activities		
Loss for the period	\$ (188,746)	\$ (463,244)
Item not affecting cash		
Share-based compensation	-	102,000
	(188,746)	(361,244)
Non-cash working capital items (<i>note 5</i>)	265,447	44,308
	76,701	(316,936)
Cash flow used in investing activities		
Exploration and evaluation asset	(660,587)	(407,997)
	(660,587)	(407,997)
Cash flow from financing activities		
Proceeds from the exercise of warrants	-	45,775
Proceeds from share subscriptions	640,000	-
	640,000	45,775
Increase (decrease) in cash	56,114	(679,158)
Cash, beginning of year	1,172,346	4,394,892
Cash, end of period	\$ 1,228,460	\$ 3,715,734

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

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three months ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

1. Nature of the Company and Continuance of Operations

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

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

The Company is currently in the process of acquiring, exploring and evaluating potential properties in the Kimberley 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 June 30, 2019, the Company had a working capital of \$615,141, representing funds available to cover on-going operating costs. The Company has incurred negative cash flows from operations, recorded a loss of \$188,746 for the three months ended June 30, 2019, and has an accumulated deficit of \$5,498,259 as at June 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 August 23, 2019.

Lithoquest Diamonds Inc.

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

North Kimberley Diamond Project

Balance, March 31, 2019	\$ 3,060,303
Land administration	10,474
Exploration and evaluation expenditures	650,113
Balance, June 30, 2019	\$ 3,720,890

4. Share Capital

Authorized share capital

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

Issued shares

There were no changes to issued and outstanding common shares during the period.

Shares to be issued

During the period, the Company received \$640,000 in connection with subscriptions for 6,400,000 shares to be issued upon closing of the financing outlined in note 7 – Subsequent Events.

Stock Options

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

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

Expiry Date	Remaining Contractual Life (in years)	Number of Options	Exercise Price
November 23, 2022	3.4	2,500,000	\$ 0.27
January 2, 2023	3.5	500,000	0.40
April 5, 2023	3.8	200,000	0.56
July 12, 2023	4.0	160,000	0.60
December 17, 2023	4.5	1,040,000	0.16
Balance, June 30, 2019		4,400,000	\$ 0.28

During the period the Company recognized \$nil (2018 - \$102,000) in share-based compensation. As of June 30, 2019, all options issued under the Plan were fully vested.

Lithoquest Diamonds Inc.

Notes to the Condensed Interim Consolidated Financial Statements
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4. Share Capital - continued

Warrants

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

As at June 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

5. Additional Cash Flow Information

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

	June 30, 2019	June 30, 2018
Sales taxes recoverable	\$ (43,006)	\$ (40,155)
Prepaid expenses	(33,190)	53,152
Accounts payable and accrued liabilities	341,643	31,311
	\$ 265,447	\$ 44,308

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, implying that no stamp duty is payable and the Company has made such filings with the Government of Western Australia. The Company is currently in discussions with the Government of Western Australia to determine the final stamp duty amount payable, if any.

Lithoquest Diamonds Inc.

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6. Stamp Duty – continued

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.

7. Subsequent Event

On July 10, 2019, the Company closed the first tranche of 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. \$640,000 of these proceeds were received during the three-month period ended June 30, 2019 and these subscriptions are reflected as shares to be issued as at June 30, 2019. The \$338,000 balance of the first tranche proceeds were received subsequent to the period end. 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.