

Lithoquest Resources Inc.

Condensed Interim Consolidated Financial Statements

Nine Months ended December 31, 2020 and 2019

(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 Resources Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at	December 31, 2020	March 31, 2020
ASSETS		
Current Assets		
Cash	\$ 65,916	\$ 81,902
Sales taxes recoverable	4,650	10,506
Other receivable	-	17,151
Prepaid expenses	16,481	44,196
Total current assets	87,047	153,755
Exploration and evaluation assets	410,387	352,837
Total assets	\$ 497,434	\$ 506,592
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 508,065	\$ 413,181
Equity		
Share capital (note 3)	9,137,935	8,895,874
Shares to be issued	-	46,000
Contributed surplus	1,397,140	1,242,040
Deficit	(10,545,706)	(10,090,503)
Total equity	(10,631)	93,411
Total liabilities and equity	\$ 497,434	\$ 506,592

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

Contingent liability (note 5)

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 Resources Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the nine months ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Share Capital		Shares to be Issued	Contributed Surplus	Deficit	Total Equity
	Number of Shares	Amount				
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
Balance, March 31, 2020	55,848,547	\$ 8,895,874	\$ 46,000	\$ 1,242,040	\$ (10,090,503)	\$ 93,411
Shares issued for cash, net of issuance costs	8,333,334	242,061	(46,000)	-	-	196,061
Stock based compensation	-	-	-	155,100	-	155,100
Comprehensive loss	-	-	-	-	(455,203)	(455,203)
Balance, December 31, 2020	64,181,881	\$ 9,137,935	\$ -	\$ 1,397,140	\$ (10,545,706)	\$ (10,631)

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

Lithoquest Resources Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the nine months ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Three Months		Nine Months	
	2020	2019	2020	2019
Expenses				
Care and maintenance	\$ 1,614	\$ -	\$ 24,291	\$ -
Management and consulting fees	28,999	88,562	109,176	258,153
Marketing and corporate development	17,038	8,774	32,687	109,007
Office and general	9,302	11,779	22,871	49,934
Professional fees	34,355	62,372	65,086	90,529
Regulatory and shareholder services	4,497	4,696	13,273	10,129
Share-based payments (<i>note 3</i>)	-	286,000	155,100	286,000
Termination of property acquisition	-	50,000	-	50,000
Travel	-	3,432	-	47,591
Loss before other items	(95,805)	(515,615)	(422,484)	(901,343)
Other items				
Foreign exchange (gain) loss	7,473	3,555	32,719	(943)
Interest income	-	(832)	-	(5,405)
Loss and comprehensive loss	\$ (103,278)	\$ (518,338)	\$ (455,203)	\$ (894,995)
Loss per share - basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding	64,181,881	55,357,563	63,515,214	52,256,620

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

Lithoquest Resources Inc.

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	2020	2019
Cash flow used in operating activities		
Loss for the period	\$ (455,203)	\$ (894,995)
Item not affecting cash		
Share-based payments	155,100	286,000
	(300,103)	(608,995)
Non-cash working capital items (<i>note 4</i>)	145,606	(82,002)
	(154,497)	(690,997)
Cash flow used in investing activities		
Exploration and evaluation assets	(57,550)	(1,367,335)
	(57,550)	(1,367,335)
Cash flow from financing activities		
Proceeds from the issuance of shares	204,000	978,000
Share issue costs	(7,939)	(34,376)
	196,061	943,624
Decrease in cash	(15,986)	(1,114,708)
Cash, beginning of year	81,902	1,172,346
Cash, end of period	\$ 65,916	\$ 57,638

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

Lithoquest Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

1. Nature of the Company and Continuance of Operations

Lithoquest Resources 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, 2020, the Company changed its name to Lithoquest Resources Inc. from Lithoquest Diamonds Inc.

The Company is engaged in the acquisition and exploration of mineral properties. The Company’s head office is at 199 Norton Road, Salt Spring Island, BC V8K 2P5.

The Company has been active in acquiring, exploring and evaluating potential properties in the Kimberly region of the Australian state of Western Australia. Due to difficult market conditions for funding diamond exploration, the Company has put a hold on substantive exploration expenditure on the North Kimberly Diamond Project and reflected a write-down of the project in the consolidated statement of comprehensive loss for the year ended March 31, 2020.

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, 2020, the Company has a working capital deficit of \$421,018. The Company has incurred negative cash flows from operations, recorded a loss of \$455,203 for the nine months ended December 31, 2020, and has an accumulated deficit of \$10,545,706 as at December 31, 2020.

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, 2020, 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, 2020, unless otherwise stated.

These financial statements were authorized for issue by the Board of Directors of the Company on February 25, 2021.

Lithoquest Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
Nine months ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

3. 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, 2020	55,848,547	\$ 8,895,874
Shares issued in private placement financing, net of issuance costs	8,333,334	242,061
Balance, December 31, 2020	64,181,881	\$ 9,137,935

On April 22, 2020, the Company closed a non-brokered private placement in which it received total gross proceeds of \$250,000 and issued 8,333,334 common shares. The issuance costs, consisting of legal fees, finder's fees and regulatory costs, were \$7,939. Of the total gross proceeds \$46,000 were received in the previous fiscal year and reflected as shares to be issued at March 31, 2020.

Stock Options

The continuity of share purchase options is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, March 31, 2020	3,930,000	\$ 0.29
Granted (a)(b)	2,825,000	0.10
Forfeited	(495,000)	0.24
Outstanding, December 31, 2020	6,260,000	\$ 0.21

- (a) On July 30, 2020, the Company granted 2,225,000 stock options to directors, officers and consultants of the Company. The options vested on grant date and are exercisable at \$0.10 per share for 5 years. The stock options were valued at \$117,700 using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years, risk-free rate of 0.26%, expected dividend yield of 0%, and expected volatility of 150%. The share price at the time of the grant was \$0.06.

Lithoquest Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements
Nine months ended December 31, 2020 and 2019
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3. Share Capital - continued

Stock Options - continued

- (b) On September 30, 2020, the Company granted 600,000 stock options to a director, and consultants of the Company. The options vested on grant date and are exercisable at \$0.10 per share for 5 years. The stock options were valued at \$37,400 using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years, risk-free rate of 0.31%, expected dividend yield of 0%, and expected volatility of 150%. The share price at the time of the grant was \$0.07.

As at December 31, 2020, the following options were outstanding and exercisable:

Expiry Date	Remaining Contractual Life (in years)	Number of Options	Exercise Price
November 23, 2022	1.9	1,775,000	\$ 0.27
January 2, 2023	2.0	500,000	0.40
April 5, 2023	2.3	200,000	0.56
July 12, 2023	2.5	160,000	0.60
December 17, 2023	3.0	800,000	0.16
July 30, 2025	4.6	2,225,000	0.10
September 30, 2025	4.8	600,000	0.10
Balance, December 31, 2020		6,260,000	

During the period the Company recognized \$155,100 (2019 - \$286,000) in share-based payments. As of December 31, 2020, all options issued under the Plan were fully vested.

Warrants

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

4. Additional Cash Flow Information

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

	December 31, 2020	December 31, 2019
Sales taxes recoverable	\$ 5,856	\$ (6,223)
Other receivable	17,151	-
Prepaid expenses	27,715	(72,445)
Accounts payable and accrued liabilities	94,884	(3,334)
	\$ 145,606	\$ (82,002)

Lithoquest Resources Inc.

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5. Contingency

Stamp duty

Accounts payable and accrued liabilities includes a provision for stamp duty of \$263,578 (AUD \$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 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 lodged a formal objection to the OSR’s duties assessment notice and is currently in discussions with the OSR’s Review team.

No stamp duty or penalties will be payable if the ultimate fair value determination by the OSR is less than AUD\$2,000,000. 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.