

# **Lithoquest Resources Inc.**

**(Formerly Lithoquest Diamonds Inc.)**

Management's Discussion and Analysis

Year Ended March 31, 2021

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## **Introduction**

This Management's Discussion and Analysis ("MD&A") provides a discussion and analysis of the financial condition and results of operations to a reader to assess material changes in the financial condition and results of operations as at and for the year ended March 31, 2021. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual consolidated financial statements of Lithoquest Resources Inc. (Formerly Lithoquest Diamonds Inc.) ("Lithoquest" or the "Company") for the years ended March 31, 2021 and 2020 and the notes thereto (the "Statements"). Readers are encouraged to review the Statements in conjunction with this document. All reported amounts are stated in Canadian Dollars unless otherwise indicated. The information contained herein is presented as at July 28, 2021, unless otherwise indicated.

## **Description of Business**

Lithoquest Resources Inc. (Formerly 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, 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 1480 - 885 W. Georgia Street, Vancouver, BC V6C 3E8.

The Company has recently acquired properties prospective for gold in northern Ontario on which it plans to focus its exploration efforts for the coming year. See "New Project Initiatives" section below .

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 expenditures 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 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.

# Lithoquest Resources Inc.

(Formerly Lithoquest Diamonds Inc.)

Management's Discussion and Analysis

Year Ended March 31, 2021

---

## Discussion of Operations

### New Project Initiatives

During the year, the Company, along with its advisors, undertook a process of actively reviewing mineral projects with the objective of securing, through staking, acquisition or joint venture, one or more projects that may offer significant discovery potential. From that process the Company has acted on opportunities in the Miminiska-Fort Hope greenstone belt in northern Ontario which provides district scale projects that are highly prospective and in underexplored geological terrane. The Attwood Project, considered a grassroots project, was acquired during the year. Subsequent to the year end, the Company entered into an option agreement to purchase two advanced projects in the belt: Miminiska, which has extensive drill confirmed gold showings; and Keezhik, which has numerous confirmed gold occurrences. See "*Subsequent Events*".

### Attwood Project

During the year, the Company acquired through staking, prospective gold and base metal claims in the Fort Hope greenstone belt in northwestern Ontario, Canada. The Attwood Project comprises 1,151 mineral claims covering 23,262 ha and is located approximately 320 km north of Thunder Bay, Ontario. The property lies within five kilometres of the all-weather Ogoki Forestry Road and is accessible by float plane from the community of Armstrong.

### Australia Diamond Project

Please see prior years' MD&A for a description of the property and details of exploration work performed. No exploration work was conducted during the current year.

Based on work completed to date, several high-priority target areas have been identified for follow-up on the North Kimberley Diamond Project. The Company believes that there is ample evidence that there are diamond-bearing bodies in the new field the Company has discovered, including 1827 where the Company has constrained the source of abundant Kimberlite Indicator Minerals ("KIM's") and diamonds to a small area. Each target area is characterized by the presence of KIM's recovered from rock, stream, or soil samples. The Company's understanding of the geochemical and geophysical expression of kimberlites in the new field will be vital in identifying the most promising targets going forward. Work considered for future programs includes prospecting, sampling, geophysical surveys, and drilling.

However, funding for diamond exploration is currently difficult to secure due to conditions in the overall diamond industry. As a result, the Company has placed the North Kimberley Diamond Project on care and maintenance until financing conditions improve.

# Lithoquest Resources Inc.

(Formerly Lithoquest Diamonds Inc.)

Management's Discussion and Analysis

Year Ended March 31, 2021

---

## Exploration Expenditures

The following table sets forth a breakdown of the material components of the Company's exploration and land administration expenditures for the years ended March 31, 2021 and 2020, and cumulatively for its work on the North Kimberly Diamond Project.

	Year Ended March 31,		Cumulative
	2021	2020	
North Kimberly Diamond Project			
Drilling	\$ -	\$ 362,018	\$ 754,557
Geological	-	27,105	468,817
Geophysical	-	134,944	552,465
Heavy mineral sampling	-	177,692	177,692
Environmental and permitting	-	-	819
Laboratory	-	146,327	243,573
Local community	-	71,838	370,621
Site operations	-	275,652	995,092
Technical reports	-	1,800	64,056
Project management	-	98,726	352,567
Land administration	-	77,600	352,837
Local administration	-	33,642	119,551
Finder's fee	-	-	15,000
Care and maintenance	<u>52,572</u>	<u>-</u>	<u>52,572</u>
	<u>\$ 52,572</u>	<u>\$ 1,407,344</u>	<u>\$ 4,520,219</u>

## Outlook

The Company is very pleased with the response from investors to its plans for optioning and exploring the Miminiska-Fort Hope Green Belt properties. The Company has assembled its team and is now well financed to proceed with exploring the properties. Immediately following closing the financing it began its field programs.

## Selected Annual Information

The following selected annual financial data has been obtained from the Company's annual consolidated financial statements, which were prepared in accordance with IFRS.

	Year Ended March 31,		
	2021	2020	2019
Revenue	\$0	\$0	\$0
Net Loss	\$628,263	\$4,780,990	\$1,523,454
Loss per share, basic and diluted	\$0.01	\$0.09	\$0.03

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## Lithoquest Resources Inc.

(Formerly Lithoquest Diamonds Inc.)

Management's Discussion and Analysis

Year Ended March 31, 2021

	As at March 31,		
	2021	2020	2019
Mineral properties	\$411,087	\$352,837	\$3,060,303
Total assets	\$565,685	\$506,592	\$4,284,073
Current liabilities	\$520,253	\$413,181	\$399,296

For the year ended March 31, 2021, the Company reported a net loss of \$628,263 (2020 - 4,780,990), comprised primarily of management and consulting fees of \$157,426 (2020 - \$301,956), marketing and corporate development expenses of \$47,012 (2020 - \$115,755), professional fees of \$130,636 (2020 - \$109,673) and share-based payments of \$155,100 (2020 - nil). The prior year includes a write-down of exploration assets of \$4,114,810.

The decreases in management and consulting fees, and marketing and corporate development reflect the reduced activity levels resulting from the shift in status during the year from active property exploration to reviewing potential new projects. Professional fees increased mainly in connection with the Company's investigation of potential projects. Share-based payments was nil in the prior year as there were no stock options granted in that year.

### Summary of Quarterly Results

The selected quarterly financial information for the past eight financial quarters is outlined below. The information has been prepared in accordance with IFRS.

	Three Months Ended			
	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020
Net Loss	\$173,060	\$103,278	\$245,040	\$106,885
Loss per share, basic and diluted	\$0.00	\$0.00	\$0.00	\$0.00

	Three Months Ended			
	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019
Net Loss	\$3,885,995	\$518,338	\$187,911	\$188,746
Loss per share, basic and diluted	\$0.07	\$0.01	\$0.00	\$0.00

### Discussion of Quarterly Variations

The second quarter of the fiscal year ended March 31, 2021 included a share-based compensation amount of \$155,100 reflecting a stock option grant in that period. Property review activities resulted in an increase in Q4 professional fees of \$43,855 and Q4 management fees of \$11,858 compared to the average of the first three quarters for those expenses.

## **Lithoquest Resources Inc.**

**(Formerly Lithoquest Diamonds Inc.)**

Management's Discussion and Analysis

Year Ended March 31, 2021

---

The fourth quarter of the fiscal year ended March 31, 2020 included the \$4,114,810 write-down of the North Kimberly Diamond Project. The third quarter included a \$286,000 share-based compensation expense for repricing and extending warrants outstanding. That charge was reversed in Q4. The third quarter also included a one-time cost of \$50,000 for terminating a property acquisition agreement and \$42,020 of the professional fees related to the stamp duty assessment. The impact of reduced marketing activities resulted in a decline in costs from an average of \$50,117 for Q1 and Q2 to an average of \$7,761 for Q3 and Q4.

### **Fourth Quarter 2021 Financial Review**

During the fourth quarter, the Company used cash of \$148,289 in operating activities, \$700 in exploration activities and generated \$229,123 in finance activities. The cash position increased by \$80,134 to \$146,050 at March 31, 2021.

### **Liquidity and Capital Resources**

The Company generates cash solely through financing activities. During year ended March 31, 2021, the Company closed two non-brokered private placement offerings (the "Offerings") in which it received total proceeds of \$425,184 net of issuance cost, and issued 11,313,334 common shares. At March 31, 2021, the Company had cash of \$146,050 and a working capital deficit of \$365,655. Subsequent to the year end, the Company closed a non-brokered private placement receiving \$2,494,500 of gross proceeds. See "*Subsequent Events*".

The Company intends to focus on exploration of its Ontario properties and has commenced field programs consisting of airborne surveys, geological mapping and soil sampling. It believes that it currently has sufficient capital resources available to meet its working capital needs for the coming year. The Company is involved in early-stage exploration and data analysis. It has no current sources of revenue and does not anticipate receiving revenue in the foreseeable future. It is highly likely that it will continue to depend on equity financing in the future. The availability of future funding will depend on factors that include market conditions and the Company's exploration prospects and results.

In connection with the flow-through component of the financing conducted after the year end, the Company has a commitment to spend a total of \$685,000 on qualifying exploration expenditures. As at the date of this MD&A the Company has no other material commitments.

### **Off-Balance Sheet Arrangements**

The Company does not have any material off-balance sheet arrangements that have, or are reasonably likely to have, an effect on the results of operations or financial condition of the Company.

### **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.

## Lithoquest Resources Inc.

(Formerly Lithoquest Diamonds Inc.)

Management's Discussion and Analysis

Year Ended March 31, 2021

---

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, 2021 and 2020 is as follows:

	2021	2020
Management fees	\$ 138,750	\$ 217,500
Share-based payments	84,900	-
	\$ 223,650	\$ 217,500

At March 31, 2021, accounts payable include amounts due to related parties of \$144,142 (2020 - \$32,680). 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.

### Proposed Transactions

As of the date of this MD&A, there have been no transactions of a material nature proposed.

### Recent Accounting Pronouncements

There have been no new standards, or amendments to standards and interpretations, that are effective for the period ended March 31, 2021, that have been applied in preparing these consolidated financial statements.

### Subsequent Events

#### Private Placement

On June 30, 2021, the Company closed a non-brokered private placement in which it issued 18,095,000 units at a price of \$0.10 per unit and 5,480,000 flow-through shares of the Company at \$0.125 per flow-through share for aggregate gross proceeds of \$2,494,500. Each unit consists of one common share of the Company and one-half warrant, with each whole warrant entitling the holder thereof to acquire an additional common share of the Company at an exercise price of \$0.15 per warrant share for a period of 24 months from the date of issuance.

#### Property Acquisition

On May 5, 2021, the Company entered into an Option Agreement with Landore Resources Canada Inc. ("Landore") to acquire a 100% interest in two gold projects located in northwest Ontario: the 5,494 ha Miminiska Gold Project ("Miminiska") and the 12,482 ha Keezhik Gold Project ("Keezhik").

The projects are situated within the Miminiska-Fort Hope greenstone belt and host drill-confirmed gold mineralization that is similar in style to the nearby Musselwhite gold mine. Extensive historical data suggests that there is potential on both projects to expand the known zones of gold mineralization as

## Lithoquest Resources Inc.

(Formerly Lithoquest Diamonds Inc.)

Management's Discussion and Analysis

Year Ended March 31, 2021

---

well as to make new discoveries. Miminiska and Keezhik are located approximately 40 km from the Eabametoong First Nation community of Fort Hope, 70 km north of the all-weather Ogoki forestry road and 250 km northwest of Geraldton.

Lithoquest will be conducting field work on both projects in the summer of 2021. The field work will provide a foundation for a drill program in early 2022.

Under the terms of the Option Agreement, the Company will earn a 100% interest in the Miminiska and Keezhik properties by making the scheduled payments defined in Table 1 to Landore. A convertible cash payment can either be made in cash or common shares of the Company, at the Company's election.

The optionor will retain a 2.0-per-cent net smelter return royalty on the property, of which 50 per cent (a 1-per-cent royalty) is purchasable at any time by the Company for \$1-million.

The transaction was accepted by the TSX on June 24, 2021 (the "Effective Date").

Table 1: Option Payments for 100% interest in Miminiska and Keezhik properties

<b>Payment Date</b>	<b>Cash</b>	<b>Convertible Cash</b>
On signing of the Option Agreement (paid)	\$25,000	Nil
10 days after the Effective Date (paid)	\$100,000	Nil
6 months after the Effective Date	\$250,000	\$400,000
12 months after the Effective Date	\$250,000	\$500,000
18 months after the Effective Date	\$250,000	\$750,000
24 months after the Effective Date	\$500,000	\$1,000,000
<b>Total</b>	<b>\$1,375,000</b>	<b>\$2,650,000</b>

### Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. On July 28, 2021, there were 90,736,881 common shares issued and outstanding, 8,860,000 stock options outstanding with a weighted average exercise price of \$0.19, expiring between 2022 and 2026, and 24,661,436 warrants with a weighted average exercise price of \$0.15, expiring between 2021 and 2023.

### Risks and Uncertainties

#### Mining Risks

The Company is subject to the risks typical in the mining business including uncertainty of success in exploration and development; operational risks including unusual and unexpected geological formations, rock bursts, particularly as mining moves into deeper levels, cave-ins, flooding and other conditions involved in the drilling and removal of material as well as environmental damage and other hazards; risks that intended drilling schedules or estimated costs will not be achieved; and risks of

## **Lithoquest Resources Inc.**

**(Formerly Lithoquest Diamonds Inc.)**

Management's Discussion and Analysis

Year Ended March 31, 2021

---

fluctuations in the price of commodities and currency exchange rates. Mineral prices are subject to volatile price movements over short periods of time and are affected by numerous factors, all of which are beyond the Company's control, including expectations of inflation, levels of interest rates, sale of gold by central banks, the demand for commodities, global or regional political, economic and banking crises and production rates in major producing regions. The aggregate effect of these factors is impossible to predict with any degree of certainty.

### Business Risks

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations.

Financial risks include commodity prices, interest rates and foreign exchange rates, all of which are beyond the Company's control.

Regulatory risks include possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company and include increased fees for filings as well as the introduction of ever more complex reporting requirements, the cost of which the Company must meet to maintain its exchange listing.

### Competition

The mineral exploration and mining business is competitive in all its phases. The Company will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive exploration and evaluation properties. The Company's ability to acquire properties in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable prospects for mineral exploration or development. There is no assurance that the Company will be able to compete successfully with others in acquiring such prospects.

### No Operating History and Financial Resources

The Company does not have an operating history and has no operating revenues and is unlikely to generate any in the foreseeable future. It anticipates that its cash resources will be sufficient to cover its projected funding requirements for the ensuing year. If its exploration program is successful, additional funds will be required for further exploration to prove economic deposits and to bring such deposits to production. Additional funds will also be required for the Company to acquire and explore other mineral interests. The Company has limited financial resources and there is no assurance that sufficient additional funding will be available to it fulfill its obligations or for further exploration and development, on acceptable terms or at all. Failure to obtain additional funding on a timely basis could result in delay or indefinite postponement of further exploration and development and could cause the Company to forfeit its interests in some or all of its properties or to reduce or terminate its operations.

### Price Volatility and Lack of Active Market

In recent years, the securities markets in Canada and elsewhere have experienced a high level of price and volume volatility, and the market prices of securities of many public companies have experienced

# **Lithoquest Resources Inc.**

**(Formerly Lithoquest Diamonds Inc.)**

Management's Discussion and Analysis

Year Ended March 31, 2021

---

significant fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. It may be anticipated that any quoted market for the Company's securities will be subject to such market trends and that the value of such securities may be affected accordingly.

## Key Executives

The Company is dependent on the services of key executives and a small number of highly skilled and experienced consultants and personnel, whose contributions to the immediate future operations of the Company are likely to be of importance. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees or consultants may adversely affect its business and future operations. The Company does not currently carry any key man life insurance on any of its executives.

## Potential Conflicts of Interest

Certain directors and officers of the Company are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of the Company. Situations may arise in connection with potential acquisitions in investments where the other interests of these directors and officers may conflict with the interests of the Company. Directors and officers of the Company with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulation, rules and policies.

## Dividends

The Company has no earnings or dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for mineral exploration and development. Any future determination to pay dividends will be at the discretion of the Board of Directors of the Company and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors of the Company deem relevant.

## Nature of the Securities

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

## **Qualified Person**

The content of the sections of this MD&A entitled "Discussion of Operations" have been approved by Bruce Counts, B.A. Sc, P.Geo., who is a Qualified Person as defined by NI 43-101 and President, CEO and a Director of Lithoquest Resources.

## **Forward-Looking Statements & Cautionary Factors that may Affect Future Results**

Certain statements contained in this MD&A constitute forward-looking statements, within the meaning of Canadian securities regulations. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, assumptions or future events or performance (often using words such as "plan", "estimate", "expect", "will", "believe" and similar expressions) are not statements of historical fact and may be forward-looking statements. Forward-looking statements contained in this

## **Lithoquest Resources Inc.**

**(Formerly Lithoquest Diamonds Inc.)**

Management's Discussion and Analysis

Year Ended March 31, 2021

---

MD&A include but are not limited to statements relating to the sufficiency of the Company's capital resources, exposure to exchange rate fluctuations, plans for and the duration of the exploration field work program, and expected expenditures of the Company. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth above. The Company assumes no obligation to update or revise forward looking statements to reflect new events or circumstances except as required by law.

### **Additional Information**

Additional information relating to the Company is available on the SEDAR website, [www.sedar.com](http://www.sedar.com).