Consolidated Financial Statements
(Expressed in thousands of Canadian Dollars)

MOUNTAIN PROVINCE DIAMONDS INC.

As at December 31, 2018 and 2017
And for the years ended December 31, 2018 and 2017

CONTENTS

	Page
Responsibility for Consolidated Financial Statements	3
Management's Report on Internal Controls Over Financial Reporting	4
Report of Independent Registered Public Accounting Firm	5
Report of Independent Registered Public Accounting Firm	6
Consolidated Balance Sheets	8
Consolidated Statements of Comprehensive (Loss) Income	9
Consolidated Statements of Equity	10
Consolidated Statements of Cash Flows	11
Notes to the Consolidated Financial Statements	12 – 41

RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Mountain Province Diamonds Inc. (the "Company") are the responsibility of the Board of Directors.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the Company's consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") appropriate in the circumstances.

Management has established processes, which are in place to provide sufficient knowledge to support management representations that it has exercised reasonable diligence that the consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility.

The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with IFRS as issued by the IASB, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Stuart Brown"
Stuart Brown
President and Chief Executive Officer

"Perry Ing"
Perry Ing
VP Finance and Chief Financial Officer

Toronto, Canada
March 20, 2019

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the IASB.

Because of its inherent limitations, the Company's internal control over financial reporting may not prevent or detect all possible misstatements or frauds. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

To evaluate the effectiveness of the Company's internal control over financial reporting, Management has used the Internal Control – Integrated Framework (2013), which is a suitable, recognized control framework established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management has assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective as of December 31, 2018. The Company's independent auditors, KPMG LLP, have issued an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

March 20, 2019

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Mountain Province Diamonds Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Mountain Province Diamonds Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive (loss) income, equity, and cash flows for each of the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 20, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
We have served as the Company's auditor since 1999.

Toronto, Canada
March 20, 2019

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, ON M5H 2S5
Canada
Tel 416-777-8500
Fax 416-777-8818

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Mountain Province Diamonds Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Mountain Province Diamonds Inc.'s (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of comprehensive (loss) income, equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated March 20, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, appearing under the heading Internal Control over Financial Reporting in Management's Discussion and Analysis for the year ended December 31, 2018. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 20, 2019

Consolidated Balance Sheets

Expressed in thousands of Canadian dollars

	Notes		December 31, 2018		December 31, 2017
ASSETS					
Current assets					
Cash		$	30,708	$	43,129
Amounts receivable	5		2,478		2,679
Prepaid expenses and other			1,269		3,464
Inventories	7		102,261		82,173
			136,716		131,445
Reclamation deposit			250		-
Derivative assets	14		1,670		963
Property, plant and equipment	8		841,241		662,658
Total assets		$	979,877	$	795,066
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities	16	$	48,295	$	34,615
Derivative liabilities	14		653		-
Income taxes payable	17		574		-
			49,522		34,615
Secured notes payable	10		408,144		396,509
Decommissioning and restoration liability	9		54,922		29,200
Deferred income tax liabilities	17		3,174		-
Shareholders' equity:					
Share capital	12		629,796		475,624
Share-based payments reserve	12		6,750		5,549
Deficit			(173,765)		(146,431)
Accumulated other comprehensive income			1,334		-
Total shareholders' equity			464,115		334,742
Total liabilities and shareholders' equity		$	979,877	$	795,066
Commitments and contingencies	10, 15 & 16				
Subsequent event	14				

On behalf of the Board:

"David Whittle"
Director

"Jonathan Comerford"
Director

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

Consolidated Statements of Comprehensive (Loss) Income

Expressed in thousands of Canadian dollars

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Sales		$ 310,969	$ 170,108
Cost of sales:			
Production costs		117,908	64,420
Cost of acquired diamonds		32,611	8,940
Depreciation and depletion		79,419	44,615
Earnings from mine operations		81,031	52,133
Exploration and evaluation expenses		8,204	472
Selling, general and administrative expenses	13	14,439	15,593
Operating income		58,388	36,068
Net finance expenses	11	(40,564)	(52,219)
Derivative (losses) gains	14	(247)	3,178
Foreign exchange (losses) gains		(32,474)	30,035
Other income		81	90
(Loss) income before taxes		(14,816)	17,152
Current income taxes	17	(1,148)	-
Deferred income taxes	17	(2,970)	-
Total income taxes	17	(4,118)	-
Net (loss) income for the year		$ (18,934)	$ 17,152
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit and loss:			
Change in fair value of equity securities	6	1,334	-
Other comprehensive income		1,334	-
Total comprehensive (loss) income for the year		$ (17,600)	$ 17,152
Basic and diluted (loss) earnings per share	12(iv)	$ (0.10)	$ 0.11
Basic weighted average number of shares outstanding		195,968,588	160,189,858
Diluted weighted average number of shares outstanding		195,968,588	161,024,354

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

Consolidated Statements of Equity

Expressed in thousands of Canadian dollars, except for the number of shares

	Notes	Number of shares	Share capital	Share-based payments reserve	Deficit	Accumulated other comprehensive income	Total
Balance, January 1, 2017		159,818,833	$ 472,995	$ 5,019	$ (163,583)	$ -	$ 314,431
Net income for the year		-	-	-	17,152	-	17,152
Issuance of common shares – exercise of options	**12(iii)**	355,000	1,577	-	-	-	1,577
Fair value of options exercised from share-based payments reserve		-	538	(538)	-	-	-
Share-based payment		-	-	1,582	-	-	1,582
Issuance of common shares – restricted share unit		79,668	514	(514)	-	-	-
Balance, December 31, 2017		160,253,501	$ 475,624	$ 5,549	$ (146,431)	$ -	$ 334,742
Net loss for the year		-	-	-	(18,934)	-	(18,934)
Share-based payment		-	-	1,685	-	-	1,685
Issuance of common shares - restricted share units	**12(iii)**	111,668	484	(484)	-	-	-
Share issuance to acquire Kennady Diamonds Inc.	**6**	49,737,307	153,688	-	-	-	153,688
Dividends declared and paid	**12(ii)**	-	-	-	(8,400)	-	(8,400)
Other Comprehensive Income:							
Financial assets at fair value through other comprehensive income							
Gain on equity securities	**6**	-	-	-	-	1,334	1,334
Balance, December 31, 2018		**210,102,476**	**$ 629,796**	**$ 6,750**	**$ (173,765)**	**$ 1,334**	**$ 464,115**

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

Consolidated Statements of Cash Flows

Expressed in thousands of Canadian dollars

	Year ended December 31, 2018	Year ended December 31, 2017
Cash provided by (used in):		
Operating activities:		
Net (loss) income for the year	$ (18,934)	$ 17,152
Adjustments:		
Net financing expenses	40,564	52,219
Depreciation and depletion	79,441	44,634
Share-based payment expense	1,685	1,582
Derivative losses (gains)	247	(3,178)
Foreign exchange losses (gains)	32,474	(30,035)
Current income taxes	1,148	-
Deferred income taxes	2,970	-
Income taxes paid	(574)	-
	139,021	82,374
Changes in non-cash operating working capital:		
Amounts receivable	842	(643)
Prepaid expenses and other	2,314	(2,146)
Inventories	(15,633)	(53,534)
Accounts payable and accrued liabilities	9,359	16,600
	135,903	42,651
Investing activities:		
Restricted cash	-	83,878
Pre-production sales capitalized	-	67,493
Interest income	582	1,081
Capitalized interest paid	-	(5,451)
Purchase of property, plant and equipment	(76,062)	(105,824)
Cash acquired and transaction costs on asset acquisition of Kennady Diamonds Inc.	(4,193)	-
	(79,673)	41,177
Financing activities:		
Loan facility proceeds	-	32,403
Repayment of loan facility	-	(458,888)
Secured notes payable	-	424,365
Repurchase of secured notes	(26,366)	-
Financing costs	(33,371)	(48,150)
Payment of dividends	(8,400)	-
Proceeds from option exercises	-	1,577
	(68,137)	(48,693)
Effect of foreign exchange rate changes on cash	(514)	1,150
(Decrease) increase in cash	(12,421)	36,285
Cash, beginning of year	43,129	6,844
Cash, end of year	$ 30,708	$ 43,129

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

1. NATURE OF OPERATIONS

Mountain Province Diamonds Inc. ("Mountain Province" and together with its subsidiaries collectively, the "Company") was incorporated on December 2, 1986 under the British Columbia Company Act. The Company amended its articles and continued incorporation under the Ontario Business Corporations Act effective May 8, 2006. The Company holds a 49% interest in the Gahcho Kué Project ("Gahcho Kué Diamond Mine" or "GK Mine" or "GK Project") in Canada's Northwest Territories. On April 13, 2018, the Company completed the asset acquisition of Kennady Diamonds Inc. (formerly KDI.V on the TSX Venture exchange), which included 100% of the mineral rights of the Kennady North Project ("KNP").

Effective March 1, 2017, the GK Mine declared commercial production for accounting purposes.

The address of the Company's registered office and its principal place of business is 161 Bay Street, Suite 1410, PO Box 216, Toronto, ON, Canada, M5J 2S1. The Company's shares are listed on the Toronto Stock Exchange ("TSX") and NASDAQ under the symbol 'MPVD'.

The underlying value and recoverability of the amounts shown as "Property, Plant and Equipment" (Note 8) are dependent upon future profitable production and proceeds from disposition of the Company's mineral properties.

KNP is involved in the exploration, discovery, evaluation and development of diamond properties in Canada's Northwest Territories. The underlying value and recoverability of amounts shown as "Mineral Properties" is dependent upon the ability of the Company to discover economically recoverable reserves, to have successful exploration, permitting and development, and upon future profitable production or proceeds from disposition of the Company's mineral properties. Failure to discover and develop economically recoverable reserves will require the Company to write off costs capitalized to date.

Authorization of Financial Statements

These consolidated financial statements were approved by the Board of Directors on March 20, 2019.

2. BASIS OF PRESENTATION

These consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The policies set out below were consistently applied to all the periods presented.

These financial statements were prepared under the historical cost convention, as modified by the revaluation of equity securities and derivative assets and liabilities and are presented in thousands of Canadian dollars.

The consolidated financial statements include the accounts of Mountain Province and its wholly-owned subsidiaries:

- 2435572 Ontario Inc. (100% owned)
- 2435386 Ontario Inc. (100% owned by 2435572 Ontario Inc.)
- Kennady Diamonds Inc. (100% owned) (from the date of acquisition – See Note 6)

The Company's interest in the GK Mine is held through 2435386 Ontario Inc. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation.

The Company has determined that its interest in the GK Mine through its joint arrangement is a joint operation under IFRS 11, Joint Arrangements, and, accordingly has recorded the assets, liabilities, revenues and expenses in relation to its interest in the joint operation. The Company's interest in the GK Mine is bound by a contractual

arrangement establishing joint control over the mine through required unanimous consent of the Company and De Beers Canada Inc. ("De Beers" or the "Operator", and together with the Company, the "Participants") for strategic, financial and operating policies of the GK Mine. The GK Mine management committee has two representatives of each of the Company and De Beers. The Participants have appointed De Beers as the operator of the GK Mine.

3. SIGNIFICANT ACCOUNTING POLICIES

(i) Foreign currency

The functional currency of the Company and its subsidiaries is the Canadian Dollar.

In preparing the consolidated financial statements, transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Exchange differences are recognized in profit or loss in the period in which they arise and presented in the consolidated statements of comprehensive (loss) income.

(ii) Share-based payments

The Company maintains a Restricted Share Unit ("RSU"), Deferred Share Unit ("DSU") and stock option plan for employees, directors, and other qualified individuals.

Equity-settled transactions, which include RSUs, DSUs and stock options, are measured by reference to their fair value at the grant date. The fair value for RSU's is determined using the market value of the share price, as listed on the TSX, at the close of business at the grant date. The fair value for stock options is determined using a Black-Scholes option pricing model, which relies on estimates of the future risk-free interest rate, future dividend payments, future share price volatility and the expected average life of options. The Company believes this model adequately captures the substantive features of the option awards, and is appropriate to calculate their fair values. The fair value determined for both RSUs and stock options at grant date is recognized over the vesting period in accordance with the vesting terms and conditions, with a corresponding increase to share-based payments reserve.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed in profit or loss over the vesting period, if any, which is the period during which the employee becomes unconditionally entitled to equity instruments. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest, if any.

(iii) Income taxes and deferred taxes

The income tax expense or benefit for the year consists of two components: current and deferred.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Taxable profit or loss differs from profit or loss as reported in the Consolidated Statements of Comprehensive Income because of items of income or expenses that are taxable or deductible in other years, and items that are never taxable or deductible.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, loss carryforwards and tax credit carryforwards to the extent that it is probable that taxable profits will be available against which they can be utilized. To the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences, loss carryforwards, and tax credit carryforwards can be utilized, a deferred tax asset is not recognized.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

(iv) Mineral properties and exploration and evaluation costs and development costs

Exploration and evaluation (“E&E”) costs are those costs required to find a mineral property and determine commercial viability and technical feasibility. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves.

Exploration and evaluation costs consist of:

- gathering exploration data through topographical and geological studies;
- exploratory drilling, trenching and sampling;
- determining the volume and grade of the resource;
- test work on geology, metallurgy, mining, geotechnical and environmental; and
- conducting and refining engineering, marketing and financial studies.

Costs in relation to these activities are expensed as incurred until such time that the technical feasibility and commercial viability of extracting the mineral resource are demonstrable. At such time, mineral properties are assessed for impairment, and an impairment loss, if any, is recognized, and future development costs will be capitalized to assets under construction.

The key factors management used in determining technical feasibility and commercial viability were the following;

- completion of a feasibility study;
- obtaining required permits to construct the mine;
- completion of an evaluation of the financial resources required to construct the mine;
- availability of financial resources necessary to commence development activities to construct the mine; and
- management's determination that a satisfactory return on investment, in relation to the risks to be assumed, is likely to be obtained.

The Company also recognizes exploration and evaluation costs as assets when acquired as part of a business combination, or asset purchase, or as a result of rights acquired relating to a mineral property.

(v) Commencement of commercial production

There are a number of quantitative and qualitative measures the Company considers when determining if conditions exist for the transition from pre-commercial production to commencement of commercial production of an operating mine, which include:

- all major capital expenditures have been completed to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management;
- mineral recoveries are at or near expected production levels;
- the ability to sustain ongoing production of ore; and
- the ability to operate the plant as intended, achieving 30 days at an average of 70% design capacity.

The list of measures is not exhaustive and management takes into account the surrounding circumstances before making any specific decision.

(vi) Impairment of non-financial assets

The carrying value of the Company's capitalized property, plant and equipment, and evaluation and exploration assets are assessed for impairment when indicators of potential impairment are identified to exist. If any indication of impairment is identified, an estimate of the asset's recoverable amount is calculated to determine the extent of the impairment loss, if any. The recoverable amount is determined as the higher of the fair value less costs of disposal for the asset and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment is determined on an asset by asset basis, whenever possible. If it is not possible to determine impairment on an individual asset basis, then impairment is considered on the basis of a cash generating unit ("CGU"). CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely

independent of the cash flows from other assets or the Company's other group of assets. The Company has determined that it has two CGUs.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged immediately to profit or loss so as to reduce the carrying amount to its recoverable amount.

(vii) Capitalized interest

Interest costs for qualifying assets are capitalized. Qualifying assets are assets that require a significant amount of time to prepare for their intended use, including projects that are in development or construction stages. Capitalized interest costs are considered an element of the cost of the qualifying asset. Capitalization ceases when the asset is substantially complete or if active development is suspended or ceases. Where funds borrowed are directly attributable to a qualifying asset, the amount capitalized represents the borrowing costs specific to those borrowings.

(viii) Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation, applying a pre-tax risk-free discount rate. The increase in the provision due to passage of time is recognized as accretion expense. The Company does not have any provisions as of December 31, 2018 and 2017 other than the provision for decommissioning and restoration associated with the property, plant and equipment.

The Company records as decommissioning and restoration liability the present value of estimated costs of legal and constructive obligations required to restore locations in the period in which the obligation is incurred. The nature of these decommissioning and restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground and/or environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized if the Company has a related asset on its balance sheet, or expensed. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and is added to inventory, and then in production costs as inventory is sold. Over time, the discounted liability is increased for the change in present value. The periodic unwinding of the discount is recognized in profit or loss as a finance cost called "accretion expense on decommissioning and restoration liability". Additional disturbances or changes in rehabilitation costs will be recognized as additional capitalized costs (or exploration and evaluation expense depending on whether there was a related asset when the liability was initially recognized) and additional decommissioning and restoration liability when they occur. If it is determined that the expected costs for decommissioning and restoration are reduced, the change in the present value of the reduction is recorded as a reduction in the capitalized costs (expensed), and a reduction of the decommissioning and restoration liability.

(ix) Loss or earnings per share

Basic loss or earnings per share is calculated by dividing loss or earnings attributable to common shares divided by the weighted average number of shares outstanding during the year.

Diluted loss or earnings per share is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding stock options. The denominator is increased by the

weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares.

(x) Revenue recognition

The Company utilizes a sales agent to facilitate the sale of rough and/or fancies and specials diamonds to the end-customer. The Company recognizes revenue when consideration has been received by the Company's sales agent, which represents the completion of the performance obligation of the Company and when control is passed to the customer.

As outlined in the joint venture agreement between the Company and De Beers Canada, fancies and specials diamonds produced at the GK mine are subject to a bid process. When De Beers is the successful bidder, the Company recognizes 49% of the bid price as revenue at the completion of the bid process, as De Beers receives the fancies and specials diamonds and the Company is paid immediately for its share by De Beers.

(xi) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary to put the asset into use, as well as the future cost of dismantling and removing the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Replacement cost, including major inspection and overhaul expenditures are capitalized for components of property, plant and equipment, which are accounted for separately.

Development costs are capitalized under assets under construction. Expenditures, including engineering to design the size and scope of the project, environmental assessment and permitting and borrowing costs are capitalized to assets under construction.

Amortization is provided on property, plant and equipment. Amortization is calculated so as to allocate the cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and amortization method are reviewed at the end of each annual reporting period. Mineral properties are not amortized until the properties to which they relate are placed into commercial production, at which time the costs will be amortized on a unit-of-production method following commencement of commercial production. Assets under construction are not amortized; rather costs are deferred until the asset is ready for use, at which point the deferred amount is transferred to the appropriate asset category and amortized as set out below.

The Company has changed its estimate of the useful life of the earthmoving equipment category within property, plant and equipment to better reflect the pattern of consumption being the straight line over the shorter of remaining life of the mine or life of the asset, rather than estimated hours. This change has been applied prospectively. This change in estimate did not result in a material difference to the depreciation in the current period. It is estimated it will not have a material impact on future periods' depreciation.

The Company has changed its estimate of the basis for units of production over proven and probable reserves from carats recovered to ore treated. This change has been applied prospectively to better reflect the pattern of consumption over the remaining life of mine. This change only affects the production and related equipment, general infrastructure, mineral properties and deferred stripping categories within property, plant and equipment.

Upon entering commercial production stage, capitalized costs associated with the acquisition of the mineral property or the development of the mine, are amortized using the various methods based in the asset categories as follows:

Corporate assets	two to seven years, straight line
Vehicles	three to five years, straight line
Production and related equipment	units of production over proven and probable reserves
General infrastructure	units of production over proven and probable reserves
Earthmoving equipment	straight line over shorter of life of mine or life of the asset
Mineral properties	units of production over proven and probable reserves
Assets under construction	not depreciated until ready for use

(xii) Inventories

Inventories are recorded at the lower of cost and net realizable values. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion. An impairment adjustment is made when the carrying amount is higher than the net realizable value.

Rough diamonds classified as finished goods comprise diamonds that have been subject to the sorting process. Cost is determined on a weighted average cost per carat basis including production costs and value-added processing activity. As outlined in the joint venture agreement between the Company and De Beers Canada, fancies and special diamonds produced at the GK Mine are subject to a bid process. Upon a successful bid by the Company, the fancies and specials diamonds will be included in inventories and 51% of the bid amount will be paid to De Beers and capitalized to the cost of inventory. Cost for fancies and specials diamonds is determined on a weighted average cost basis including production costs and value-added processing activity plus the direct cost of acquiring the fancies and specials diamonds from De Beers.

Stockpiled ore represents coarse ore that has been extracted from the mine and is available for future processing. Stockpiled ore value is based on costs incurred in bringing ore to the stockpile. Costs are added to the stockpiled ore based on current mining costs per tonne and are removed at the average cost per tonne of ore in the stockpile.

Supplies inventory are consumable materials which are measured at the lower of weighted average cost and net realizable value.

(xiii) Capitalized stripping costs

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of removing overburden and waste materials is referred to as stripping. Stripping costs incurred in order to provide initial access to the ore body (referred to as pre-production stripping) are capitalized as mine development costs. These amounts were capitalized under assets under construction.

It may be also required to remove waste materials and to incur stripping costs during the production phase of the mine. The Company recognizes a stripping activity asset if all of the below conditions are met:

- It is probable that the future economic benefit (improved access to the component of the ore body) associated with the stripping activity will flow to the Company.
- The Company can identify the component of the ore body for which access has been improved.
- The costs relating to the stripping activity associated with that component can be measured reliably.

The Company measures the stripping activity at cost based on an accumulation of costs incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable costs. The waste to ore strip ratio projected for the life of the specific orebody must be exceeded for the costs to be capitalized as stripping costs.

After initial recognition, the stripping activity asset is carried at cost less depreciation and impairment losses in the same way as the existing asset of which it is a part.

The stripping activity asset is depreciated over the expected useful life of the identified components of the ore body that becomes more accessible as a result of the stripping activity using the units of production method.

(xiv) New accounting policies adopted in the current year

(a) Financial instruments

The Company has adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”), as of January 1, 2018. IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. There are differences between IFRS 9 and IAS 39, however, most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities, including the accounting for the embedded derivative related to the secured notes payable, is unchanged.

As a result of the adoption of IFRS 9, the Company has changed its accounting policy for financial assets retrospectively, for assets that were recognized at the date of application. The change did not impact the carrying value of any financial assets on transition date. The main area of change is the accounting for cash previously classified as fair value through profit and loss.

The following is the Company’s new accounting policy for financial instruments under IFRS 9.

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Asset/Liability	Original classifciation IAS 39	New classification IFRS 9
Cash	FVTPL	Amortized cost
Equity securities	Available-for-sale	FVTOCI
Amounts receivable	Loans and receivables	Amortized cost
Derivative assets	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other liabilties	Amortized cost
Secured notes payable	Other liabilties	Amortized cost

The Company is not required to restate prior periods. The adoption of IFRS 9 resulted in no change to the opening accumulated deficit on January 1, 2018.

The Company's cash consists of balances with banks.

The Company had no held-to-maturity financial assets at December 31, 2018 and 2017.

Measurement

Financial assets at FVTOCI

Elected 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.

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value, plus transaction costs, and subsequently carried at amortized cost less any impairment. Financial liabilities carried at amortized cost utilize the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of comprehensive (loss) income in the period in which they arise.

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of comprehensive (loss) income. However, gains and losses on derecognition of

financial assets classified as FVTOCI are reclassified to retained earnings (deficit) as a reclassification within equity.

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of comprehensive (loss) income.

(b) Foreign currency transactions and advance consideration

In December 2016, the IASB issued IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" ("IFRIC 22"). IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018 and permits early adoption. IFRIC 22 clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of the advance consideration. The adoption of IFRIC 22 did not have an effect on the consolidated financial statements for the period.

(xv) Standards and amendments to existing standards

At the date of authorization of these financial statements, certain new standards and amendments to existing standards have been published but are not yet effective, and have not been adopted early by the Company. The Company anticipates that all of the relevant standards will be adopted by the Company in the first period beginning after the effective date of the standard. Information on new standards and amendments that are expected to be relevant to the Company's financial statements is provided below.

Leases
On January 13, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). The new standard will replace existing lease guidance in IFRS and related interpretations and requires companies to bring most leases on balance sheet. The significant change will affect the accounting treatment of leases currently classified as operating leases. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company has concluded that the adoption of IFRS 16 will have an increase in lease liabilities, representing the present value of future payments under arrangements currently classified as operating leases, along with a corresponding increase in property, plant and equipment. Upon increasing property, plant and equipment, there will be an impact on the statement of comprehensive (loss) income, with an increase to depreciation, depletion and finance costs rather than operating expenses. There will be an impact on the statement of cash flows with an increase to financing activities rather than operating activities. Management believes the quantitative impact of this adoption will not be material.

Uncertainty over income tax treatments
On June 7, 2017, the IASB issued IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("IFRIC 23"). 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. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. Management concludes there will be no material impact on the effect of adopting IFRIC 23 on the consolidated financial statements for annual periods beginning January 1, 2019.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments and/or estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the estimates. The key areas where judgments, estimates and assumptions have been made are summarized below.

i) Significant judgments in applying accounting policies

The areas which require management to make significant judgments in applying the Company's accounting policies are:

a) *Impairment analysis – property, plant and equipment and evaluation and exploration assets*

As required under IAS 36 and IFRS 6, the Company reviews its property, plant and equipment and its evaluation and exploration assets for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. The Company is required to make certain judgments in assessing indicators of impairment. The Company's assessment was that as at December 31, 2018 no indicator of an impairment in the carrying value of its property, plant and equipment and evaluation and exploration assets had occurred. The Company assessed for impairment as at December 31, 2017, but determined no impairment existed.

ii) Significant accounting estimates and assumptions

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

a) *Mineral reserves and resources*

Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical inferences drawn from drilling and other data, and require estimates of the future price for the commodity and future cost of operations. The mineral reserve and resources are subject to uncertainty and actual results may vary from these estimates. Results from drilling, testing and production, as well as material changes in commodity prices and operating costs subsequent to the date of the estimate, may justify revision of such estimates. Changes in the proven and probable mineral reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of the properties. This will also impact the carrying value of the decommissioning and restoration liability and future depletion charges.

b) *Provision for decommissioning and restoration*

The decommissioning and restoration liability and the accretion recorded are based on estimates of future cash flows, discount rates, and assumptions regarding timing. The estimates are subject to change and the actual costs for the decommissioning and restoration liability may change significantly. Significant assumptions exist for the determination of what constitutes decommissioning and restoration. Judgment has been applied by management to determine which decommissioning and restoration costs have been appropriately capitalized to inventory, based on the nature of the costs incurred upon reaching commercial production.

c) *Deferred taxes*

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unused losses carried forward, and are measured using the substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, including forecasts which include taxable profits, it is probable that they will be realized. Significant judgement is involved in determining when an adequate track record has been established to support the accuracy of the assumptions related to the forecasts of taxable profits.

d) *Business combinations*

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require may require the Company to make certain judgments as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – Business Combinations. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of Kennady Diamonds Inc. on April 13, 2018 did not meet the criteria for accounting as a business combination (Note 6).

5. AMOUNTS RECEIVABLE

		December 31, 2018		December 31, 2017
Sales receivable	**$**	**180**	$	-
GST/HST receivable		**1,247**		2,068
Other receivable		**1,051**		611
Total	**$**	**2,478**	$	2,679

6. ACQUISITION OF KENNADY DIAMONDS INC.

On January 29, 2018, the Company announced a definitive arrangement agreement pursuant to which the Company would acquire all of the issued and outstanding shares of Kennady Diamonds Inc. (“Kennady”) by way of a court-approved plan of arrangement (the “Transaction”). Under the terms of the Transaction, Kennady shareholders would receive 0.975 of a Mountain Province common share for each Kennady common share. During the three-month period ended March 31, 2018, the Company obtained 3,000,000 Kennady shares, by way of a private placement. On April 9, 2018, approval of the Transaction was obtained from both Mountain Province and Kennady shareholders. On April 11, 2018, final approval of the Ontario Superior Court of Justice for the proposed transaction took place. On April 13, 2018, after all conditions precedent were satisfied, the Transaction was closed. Kennady shareholders received 49,737,307 shares of Mountain Province for 51,012,599 shares of Kennady. The transaction was valued based on the share price of the Company on April 13, 2018.

Until April 13, 2018, the 3,000,000 shares of Kennady obtained were held as equity securities. During the year ended December 31, 2018, the Company recognized a realized gain of $1,334, net of income taxes, related to the fair value adjustment of its equity securities. All equity securities owned by the Company are classified as FVTOCI, with fair value gains, net of income taxes, of $1,334 recorded in other comprehensive income for the year ended December 31, 2018. All $1,334 recorded in other comprehensive income arose by April 13, 2018 as a result of the acquisition.

The acquisition of Kennady Diamonds Inc. is considered an asset acquisition, and not a business combination in accordance with IFRS 3. The following table summarizes the fair value of the consideration transferred to the Kennady shareholders and the final estimates of the fair values of identified assets acquired and liabilities assumed.

The purchase price allocation and the net assets acquired were as follows:

Purchase price:		
Common shares issued	$	153,688
Purchase of equity securities prior to April 13, 2018		9,038
Company transaction costs		4,247
Total	**$**	**166,973**

Net assets acquired:		
Assets		
Cash	$	54
Amounts receivable		641
Prepaid expenses		119
Reclamation deposit		250
Property, plant and equipment		168,609
Liabilities		
Accounts payable and accrued liabilities		(2,527)
Decommissioning and restoration liability		(173)
Total	**$**	**166,973**

7. INVENTORIES

	December 31, 2018	December 31, 2017
Ore stockpile	**$ 17,714**	$ 19,972
Rough diamonds	**56,300**	45,999
Supplies inventory	**28,247**	16,202
Total	**$ 102,261**	$ 82,173

Depreciation and depletion included in inventories at December 31, 2018 is $21,519 (2017 - $17,225).

The amount of inventory expensed approximates cost of sales with respect to production costs incurred, and the cost of acquired diamonds.

Included in production costs for the year ended December 31, 2018 are the Company's 49% share of payroll and employee benefits for staff of the GK Mine of $34,017 (2017 - $15,037).

8. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment as at December 31, 2018 and 2017 are as follows:

	Property, plant and equipment GK	Assets under construction GK	Property, plant and equipment KNP	Exploration and evaluation assets KNP	Assets under construction KNP	Total
Cost						
At January 1, 2017	$ 91,936	$ 590,680	$ -	$ -	$ -	$ 682,616
Decommissioning and restoration adjustment	2,979	-	-	-	-	2,979
Additions/transfers*	612,484	(566,701)	-	-	-	45,783
At December 31, 2017	707,399	23,979	-	-	-	731,378
Decommissioning and restoration adjustment	23,553	-	-	-	-	23,553
Additions/transfers*	89,154	(19,085)	90	166,947	1,564	238,670
At December 31, 2018	**$ 820,106**	**$ 4,894**	**$ 90**	**$ 166,947**	**$ 1,564**	**$ 993,601**
Accumulated depreciation						
At January 1, 2017	$ (6,563)	$ -	$ -	$ -	$ -	$ (6,563)
Depreciation	(62,157)	-	-	-	-	(62,157)
At December 31, 2017	(68,720)	-	-	-	-	(68,720)
Depreciation and depletion	(83,630)	-	(10)	-	-	(83,640)
At December 31, 2018	**$ (152,350)**	**$ -**	**$ (10)**	**$ -**	**$ -**	**$ (152,360)**
Carrying amounts						
At December 31, 2017	$ 638,679	$ 23,979	$ -	$ -	$ -	$ 662,658
At December 31, 2018	**$ 667,756**	**$ 4,894**	**$ 80**	**$ 166,947**	**$ 1,564**	**$ 841,241**

*Included in the additions of assets under construction for the year ended December 31, 2018 is $Nil (2017 - $10,168) of borrowing and other costs and is net of $Nil (2017 - $67,493) of pre-production sales. Amounts were transferred to their appropriate asset class upon the declaration of commercial production. On April 13, 2018, KNP assets were acquired at their fair value for share consideration of the Company. Please see Note 6 for further details. Included in additions of property, plant and equipment for GK is $32,776 (2017 - $2,777) related to deferred stripping.

The Company's primary project, the 49% owned GK Mine, declared commercial production on March 1, 2017. Failure to meet the obligations for cash calls to fund the Company's share in the GK Mine may lead to dilution of the interest in the GK Mine.

On April 13, 2018, KNP mineral asset rights under the KNP were acquired. Kennady is involved in the exploration, discovery, evaluation and development of diamond properties in Canada's Northwest Territories.

9. DECOMMISSIONING AND RESTORATION LIABILITY

The decommissioning and restoration liability is the addition of the liabilities for both for the GK Mine and the Kennady North Project, which are broken down separately below.

The GK Mine decommissioning and restoration liability was calculated using the following assumptions as at December 31, 2018 and 2017:

		December 31, 2018		December 31, 2017
Expected undiscounted cash flows	$	56,122	$	30,045
Discount rate		2.18%		2.26%
Inflation rate		1.95%		1.99%
Periods		2029		2028

The Kennady North Project mine decommissioning and restoration liability was calculated using the following assumptions as at December 31, 2018:

		December 31, 2018
Expected undiscounted cash flows	$	175
Discount rate		1.86%
Inflation rate		1.95%
Periods		2021

The decommissioning and restoration liability has been calculated using expected cash flows that are current dollars, with inflation.

During the year ended December 31, 2018, the decommissioning and restoration liability was increased by $24,892 (2017 - $4,372) for a change in estimate, reflecting primarily an increase in estimated reclamation and restoration costs due to the construction work completed at the GK mine site, the mining operations on the property, and a decrease in estimated reclamation and restoration costs due minimal construction and exploration work performed at the KNP mine site.

The continuity of the decommissioning and restoration liability at December 31, 2018 and 2017 is as follows:

		GK Mine		KNP		Total
Balance, at January 1, 2017	$	24,266	$	-	$	24,266
Change in estimate of discounted cash flows		4,372		-		4,372
Accretion recorded during the year		562		-		562
Balance, at December 31, 2017	$	29,200	$	-	$	29,200
Addition of balance at the time of KDI acquisition (Note 6)		-		173		173
Change in estimate of discounted cash flows		24,900		(8)		24,892
Accretion recorded during the year		656		1		657
Balance, at December 31, 2018	$	54,756	$	166	$	54,922

10. SECURED NOTES PAYABLE

On December 11, 2017, the Company completed an offering of US$330 million aggregate principal amount of senior secured notes, secured by a second-ranking lien on all present and future assets, property and undertakings of the Company. The secured notes were sold at 97.992% of par, resulting in total proceeds of US$323.4 million. The secured notes pay interest in semi-annual instalments on June 15 and December 15 of each year, commencing on June 15, 2018, at a rate of 8.00% per annum, and mature on December 15, 2022. The Company incurred transaction costs of approximately $10 million, which have been offset against the carrying amount of the secured notes and are amortized using the effective interest rate method. The indenture governing the secured notes contains certain restrictive covenants that limit the Company's ability to, among other things, incur additional indebtedness, make certain dividend payments and other restricted payments, and create certain liens, in each case subject to certain exceptions. The restrictive covenant on the Company's ability to pay potential future dividends relates to a fixed charge coverage ratio of no less than 2:1. The fixed charge coverage ratio is calculated as EBITDA over interest expense. Subject to certain limitations and exceptions, the amount of the restricted payments, which include dividends and share buybacks, is limited to a maximum dollar threshold, which is calculated at an opening basket of US$10 million plus 50% of the historical consolidated net income, subject to certain adjustments, reported from the quarter of issuance and up to the most recently available financial statements at the time of such restricted payment, plus an amount not to exceed the greater of US$15 million and 2% of total assets as defined in the indenture.

During the year ended December 31, 2018, the Company repurchased US$20.1 million ($26.4 million) of outstanding secured notes. During the year ended December 31, 2017, no repurchases were made.

As at December 31, 2018, the Company has an obligation for US$309.9 million or $422.3 million Canadian dollar equivalent from the secured notes payable.

		December 31, 2018		December 31, 2017
Total outstanding secured notes payable	$	**422,262**	$	414,843
Less: unamortized deferred transaction costs and issuance discount		**14,118**		18,334
Total secured notes payable	**$**	**408,144**	$	396,509

The secured notes payable is carried at amortized cost on the consolidated balance sheet.

Despite the repurchase of US$20.1 million secured notes payable, during the year ended December 31, 2018, due to the relative weakening of the Canadian dollar as compared to the U.S. dollar, an unrealized foreign exchange translation caused the secured notes payable balance to increase over the amount as at December 31, 2017.

The senior secured notes indenture grants the Company the option to prepay the notes prior to the maturity of the instruments, and specifies a premium during each applicable time period. These prepayment options have been accounted for as embedded derivatives and are outlined below. The Company may redeem the secured notes:

- during each of the two twelve-month periods commencing on December 11, 2017, in an amount not to exceed 10% of the aggregate principal amount of the secured notes at a redemption price equal to 103% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption;
- at any time and from time to time prior to December 15, 2019, in an aggregate principal amount not to exceed 40% of the aggregate principal amount of the secured notes, with the proceeds of one or more qualifying equity offerings, at a redemption price equal to 108% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption;

- in whole or in part at any time during the twelve-month period beginning on December 15, 2019 at a redemption price equal to 104% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption;
- in whole or in part at any time during the twelve-month period beginning on December 15, 2020 at a redemption price equal to 102% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption; and
- in whole or in part at any time during the twelve-month period beginning on December 15, 2021 at a redemption price equal to 100% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption.

Revolving Credit Facility

Concurrent with the closing of the Notes offering, the Company entered into an undrawn US$50 million first ranking lien revolving credit facility (the "RCF") with Scotiabank and Nedbank Ltd. in order to maintain a liquidity cushion for general corporate purposes. The RCF has a term of three years and the Company is subject to a quarterly commitment between 0.9625% and 1.2375%, depending on certain leverage ratio calculations at the time. Upon drawing on the RCF, an interest rate of LIBOR plus 2.5% to 4.5% per annum is charged for the number of days the funds are outstanding, based on certain leverage ratio calculations at the time. As at December 31, 2018, the RCF remained undrawn. The RCF is subject to several financial covenants, in order to remain available. The following financial covenants are calculated on a quarterly basis:

- Total leverage ratio of less than or equal to 4.50:1 calculated as total debt divided by EBITDA, up to and including December 31, 2019; and 4:1, thereafter until the maturity date.
- A ratio of EBITDA to interest expense no less than 2.25:1; and
- A tangible net worth that is no less than 75% of the tangible net worth as reflected in the September 30, 2017 financial statements provided to the administrative agent as a condition precedent to closing, plus 50% of the positive net income for each subsequent quarter date.
- Permitted distributions are subject to the Company having a net debt to EBITDA ratio of less than or equal to 2.75:1 in 2018, 2.25:1 in 2019, and 1.75:1 in 2020. Net debt is equal to total debt, less cash and cash equivalents. The aggregate amount of all distributions paid during the rolling four quarters up to and including the date of such distribution does not exceed 25% of free cash flows ("FCF") during such period. FCF is defined as EBITDA minus, without duplication, (a) capital expenditures, (b) cash taxes, (c) any applicable standby fee, other fees or finance costs payable to the finance parties in connection with the RCF, (d) interest expenses and (e) any indebtedness (including mandatory prepayments) permitted under the existing agreement.

The Company is in compliance with all financial covenants as at December 31, 2018.

11. NET FINANCE EXPENSES

	Year ended December 31, 2018	Year ended December 31, 2017
Interest income	**$ 582**	$ 1,081
Accretion expense on decommissioning and restoration liability	**(657)**	(562)
Interest expense	**(34,628)**	(30,419)
Amortization of deferred financing costs	**(4,216)**	(20,790)
Other finance costs	**(1,645)**	(1,529)
	$ (40,564)	$ (52,219)

Finance costs include interest expense calculated using the effective interest method, adjusted for interest paid on interest rate swaps and foreign exchange on the interest paid and accrued. These financing costs, until the declaration of commercial production had been capitalized to assets under construction.

12. SHAREHOLDERS' EQUITY

i. Authorized share capital

Unlimited common shares, without par value.
There is no other class of shares in the Company.

ii. Share capital

The number of common shares issued and fully paid as at December 31, 2018 is 210,102,470. There are no shares issued but not fully paid. As part of the Transaction which took place on April 13, 2018 to acquire all of the outstanding shares of Kennady, 49,737,307 shares of the Company were issued.

In the year ended December 31, 2018, the Company declared and paid a dividend of $0.04 per common share totalling $8,400.

iii. Stock options, RSUs, DSUs and share-based payments reserve

On June 21, 2016, the Company, through its Board of Directors and shareholders, adopted a long-term equity incentive plan (the "Plan") which, among other things, allows for the maximum number of shares that may be reserved for issuance under the Plan to be 10% of the Company's issued and outstanding shares at the time of the grant. The Board of Directors has the authority and discretion to grant stock option, RSU and DSU awards within the limits identified in the Plan, which includes provisions limiting the issuance of options to qualified persons and employees of the Company to maximums identified in the Plan.

As at December 31, 2018, the aggregate maximum number of shares pursuant to options granted under the Plan will not exceed 21,010,248 shares, and there were 17,511,251 shares available to be issued under the Plan. All stock options are settled by the issuance of common shares.

The following table summarizes information about the stock options outstanding and exercisable:

	December 31, 2018		December 31, 2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance at beginning of year	**3,640,000**	**$ 4.40**	3,020,000	$ 4.68
Granted during the year	**240,000**	**3.30**	1,110,000	3.69
Exercised during the year	**-**	**-**	(355,000)	4.44
Expired during the year	**(750,000)**	**5.00**	(135,000)	4.84
Balance at end of the year	**3,130,000**	**$ 4.17**	3,640,000	$ 4.40
Options exercisable at the end of the year	**2,183,334**	**$ 4.45**	2,530,000	$ 4.70

The fair values of the stock options granted have been estimated on the date of grant using the Black-Scholes option pricing model. The assumptions are presented below. Expected volatility is calculated by reference to the weekly closing share price for a period that reflects the expected life of the options. The 200,000 stock options issued on June 30, 2018 vest 1/3 on June 30, 2019, 1/3 on June 30, 2020 and 1/3 on June 30, 2021. The 40,000 stock options issued on June 30, 2018 vest 1/2 on June 30, 2019 and 1/2 on June 30, 2020. The 100,000 stock options issued on

February 6, 2017 vested 1/3 immediately and 1/3 vested on February 6, 2018 and the remaining 1/3 vest on February 6, 2019. The 1,010,000 stock options issued on December 22, 2017 vest 1/3 on December 22, 2018, 1/3 on December 22, 2019, and 1/3 on December 22, 2020.

	December 31, 2018	December 31, 2017
Exercise price	**$3.30**	$3.48 - $5.86
Expected volatility	**30.78%**	31.03% - 31.14%
Expected option life	**5 years**	5 years
Contractual option life	**5 years**	5 years
Expected forfeiture	**none**	none
Expected dividend yield	**0%**	0%
Risk-free interest rate	**2.06%**	1.11% - 1.82%

During the year ended December 31, 2017, 355,000 stock options were exercised for proceeds of $1,577. The aggregate market price of the common shares on the exercise dates was $2,316.

The following tables reflect the number of stock options outstanding, the weighted average of options outstanding, and the exercise price of stock options outstanding at December 31, 2018. The Black-Scholes values are measured at the grant date.

At December 31, 2018

Expiry Date	**Black-Scholes Value**	**Number of Options**	**Number of Exercisable Options**	**Exercise Price**
February 13, 2019	206	150,000	150,000	5.29
April 13, 2020	1,242	785,000	785,000	4.66
October 14, 2020	133	100,000	100,000	4.21
December 10, 2020	614	545,000	545,000	3.57
June 30, 2021	120	100,000	100,000	6.35
November 3, 2021	214	100,000	100,000	6.96
February 5, 2022	171	100,000	66,667	5.86
December 21, 2022	1,075	1,010,000	336,667	3.48
June 30, 2023	203	200,000	-	3.30
June 30, 2023	41	40,000	-	3.30
	$ 4,019	3,130,000	2,183,334	$ 4.17

The weighted average remaining contractual life of the options outstanding at December 31, 2018 is 2.63 years (2017 – 2.85 years).

Subsequent to the year ended December 31, 2018, 150,000 stock options, with an exercise price of $5.29, expired.

The restricted and deferred share unit plans are full value phantom shares that mirror the value of the Company's publicly traded common shares. Grants under the RSU and DSU plan are made on a discretionary basis to qualified persons and employees of the Company subject to the Board of Directors' approval. Under the RSU and DSU plan, RSUs vest according to the terms set out in the award agreement which are determined on an individual basis at the discretion of the Board of Directors. Vesting under the RSU and DSU plan is subject to special rules for death, disability and change in control. The awards can be settled through issuance of common shares or paid in cash, at the discretion of the Board of Directors. These awards are accounted for as equity settled RSUs.

The fair value of each RSU issued is determined at the closing share price on the grant date.

The following table shows the RSU awards which have been granted and settled during the year:

	December 31, 2018		December 31, 2017	
RSU	Number of units	Weighted average value	Number of units	Weighted average value
Balance at beginning of year	**488,665**	**$ 4.88**	320,000	$ 6.48
Awards and payouts during the period (net):				
RSUs awarded	**-**	**-**	265,000	3.52
RSUs settled and common shares issued*	**(111,668)**	**4.33**	(79,668)	6.45
RSUs forfeited	**(8,000)**	**6.49**	(16,667)	6.49
Balance at end of the year	**368,997**	**$ 5.01**	488,665	$ 4.88

*As at December 31, 2018, 106,668 RSUs at a weighted average value of $6.49 have vested and have not yet been settled.

As at December 31, 2018, no DSU awards have been granted.

The share-based payments recognized as an expense for the years ended December 31, 2018 and 2017 are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Expense recognized in the year for share-based payments	**$ 1,685**	$ 1,582

The share-based payment expense for the years ended December 31, 2018 and 2017 is included in selling, general and administrative expenses.

iv. (Loss) earnings per share

The following table sets forth the computation of basic and diluted (loss) earnings per share:

	Year ended December 31, 2018	Year ended December 31, 2017
Numerator		
Net (loss) income for the year	**$ (18,934)**	$ 17,152
Denominator		
For basic - weighted average number of shares outstanding	**195,968,588**	160,189,858
Effect of dilutive securities	**-**	834,496
For diluted - adjusted weighted average number of shares outstanding	**195,968,588**	161,024,354
(Loss) Earnings Per Share		
Basic	**$ (0.10)**	$ 0.11
Diluted	**$ (0.10)**	$ 0.11

For the year ended December 31, 2018, 3,130,000 stock options and 368,997 RSUs were not included in the calculation of diluted loss per share since to include them would be anti-dilutive (2017 – 2,805,504 stock options).

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2018	Year ended December 31, 2017
Selling and marketing	$ 6,607	$ 6,493
General and administrative:		
Consulting fees and payroll	2,297	3,238
Share-based payment expense	1,685	1,582
Depreciation	21	19
Office and administration	879	870
Professional fees	1,579	2,161
Promotion and investor relations	264	162
Director fees	328	325
Transfer agent and regulatory fees	536	390
Travel	243	353
	$ 14,439	$ 15,593

14. DERIVATIVE ASSETS AND LIABILITIES

(a) Derivative Assets

The senior secured notes indenture grants the Company the option to prepay the notes prior to the maturity of the instruments, and specifies a premium during each applicable time period. These prepayment options have been accounted for as embedded derivatives and are outlined below. The Company may redeem the secured notes:

- during each of the two twelve-month periods commencing on December 11, 2017, in an amount not to exceed 10% of the aggregate principal amount of the secured notes at a redemption price equal to 103% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption;
- at any time and from time to time prior to December 15, 2019 in an aggregate principal amount not to exceed 40% of the aggregate principal amount of the secured notes with the proceeds of one or more qualifying equity offerings, at a redemption price equal to 108% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption;
- in whole or in part at any time during the twelve-month period beginning on December 15, 2019 at a redemption price equal to 104% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption;
- in whole or in part at any time during the twelve-month period beginning on December 15, 2020 at a redemption price equal to 102% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption; and
- in whole or in part at any time during the twelve-month period beginning on December 15, 2021 at a redemption price equal to 100% of the principal amount of the secured notes redeemed, plus accrued and unpaid interest to the date of redemption.

As at December 31, 2018, the fair value of the prepayment option embedded derivative was US$1,226 ($1,670 Canadian dollar equivalent) (2017 – US$766 or $963 Canadian dollar equivalent), and has been presented as a derivative asset on the consolidated balance sheet. The Company recorded a gain of approximately $406 for the year ended December 31, 2018 (2017 - $971), which is recorded in derivative gains.

(b) Derivative Liabilities

The Company entered into foreign currency forward strip contracts to mitigate the risk that a devaluation of the U.S. dollar against the Canadian dollar would reduce the Canadian dollar equivalent of the U.S. dollar sales proceeds and the Company would not have sufficient Canadian dollar funds to contribute to the operations of the GK Mine.

These derivatives have been classified as "non-hedge derivatives". Changes in fair value of the foreign currency forward strip contracts are recognized in net income or loss as gains or losses on derivatives.

Foreign Currency Forward Contracts
On December 19, 2018, the Company executed foreign currency forward contracts to buy Canadian dollars and sell U.S. dollars for the period from January 31, 2019 to July 2, 2019 for notional amounts of US$25,000 or $33,500 with a weighted average price of $1.34/US$1. As at December 31, 2017, the Company did not have any foreign currency forward contracts outstanding.

The table below provides a summary of currency contracts outstanding as at December 31, 2018.

	Period of Currency Contracts	Notional Amount (CAD)	Weighted Average Price (USD)	Notional Amount (USD)
	January 31, 2019 to July 2, 2019	$ 33,500	$ 1.34	$ 25,000
Total		$ 33,500	$ 1.34	$ 25,000

The following table presents amounts recognized in the Consolidated Statement of Comprehensive (Loss) Income for the year ended December 31, 2018 and 2017:

	Year ended December 31, 2018	Year ended December 31, 2017
Gain on derivative contracts - interest rate swap contracts	**$ -**	$ 2,207
Loss on derivative contracts - currency contracts	**(653)**	-
Gain on prepayment option embedded derivative	**406**	971
Total	**$ (247)**	$ 3,178

Subsequent to the year ended December 31, 2018, the Company executed foreign currency forward contracts to buy Canadian dollars and sell U.S. dollars for the period from April 9, 2019 to October 9, 2019 for notional amounts of US$15,000 or $20,093 with a weighted average price of $1.3395/US$1.

15. FINANCIAL INSTRUMENTS

Fair value measurement

The Company categorizes each of its fair value measurements in accordance with a fair value hierarchy. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The fair values of the amounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term maturity of these financial instruments.

The following table shows the carrying amounts and fair values of the Company's financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount					Fair value			
December 31, 2018	Assets at amortized cost	Fair value through profit and loss	Fair value through other comprehensive income	Liabilities at amortized cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Derivative assets	$ -	$ 1,670	$ -	$ -	$ 1,670	$ -	$ 1,670	$ -	$ 1,670
	$ -	$ 1,670	$ -	$ -	$ 1,670				
Financial assets not measured at fair value									
Cash	$ 30,708	$ -	$ -	$ -	$ 30,708	30,708	-	-	30,708
Amounts receivable	2,478	-	-	-	2,478	2,478	-	-	2,478
	$ 33,186	$ -	$ -	$ -	$ 33,186				
Financial liabilities measures at fair value									
Derivative liabilities	$ -	$ 653	$ -	$ -	$ 653	-	653	-	653
	$ -	$ 653	$ -	$ -	$ 653				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 48,295	$ 48,295	48,295	-	-	48,295
Secured notes payable	-	-	-	408,144	408,144	425,860	-	-	425,860
	$ -	$ -	$ -	$ 456,439	$ 456,439				

	Carrying amount					Fair value			
December 31, 2017	Assets at amortized cost	Fair value through profit and loss	Fair value through other comprehensive income	Liabilities at amortized cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Derivative assets	$ -	$ 963	$ -	$ -	$ 963	$ -	$ 963	$ -	$ 963
	$ -	$ 963	$ -	$ -	$ 963				
Financial assets not measured at fair value									
Cash	$ 43,129	$ -	$ -	$ -	$ 43,129	43,129	-	-	43,129
Amounts receivable	2,679	-	-	-	2,679	2,679	-	-	2,679
	$ 45,808	$ -	$ -	$ -	$ 45,808				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ 34,615	$ 34,615	34,615	-	-	34,615
Secured notes payable	-	-	-	396,509	396,509	412,976		-	412,976
	$ -	$ -	$ -	$ 431,124	$ 431,124				

Fair values of assets and liabilities classified as Level 2 are valued using discounted cash flow ("DCF") models. These models require a variety of observable inputs including market prices, forward price curves, yield curves and credit spreads. These inputs are obtained from or verified with the market where possible. The financial assets relate to the embedded derivative assets, which are prepayment options on the secured notes payable (Note 10).

Derivative instruments are valued using DCF models. These models require a variety of observable inputs including market prices, forward price curves and yield curves. These inputs are obtained from or verified with the market where possible.

The fair value of the secured notes payable is determined using market quoted prices.

Financial instruments risks

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk, market risk, foreign currency risk and interest rate risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's exposure to credit risk is for its amounts receivable of which all of the outstanding amounts of $2,478 and $2,679 as at December 31, 2018 and 2017, respectively, were collected.

On December 31, 2018 and 2017, the Company does not have any allowance for doubtful accounts, and does not consider that any such allowance is necessary.

All of the Company's cash and restricted cash is held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to amounts receivable. The Company considers the risk of loss for its amounts receivable to be remote and significantly mitigated due to the financial strength of the parties from whom most of the amounts receivable are due - the Canadian government for harmonized sales tax ("HST") refunds receivable in the amount of approximately $1,247 (2017 - $2,068).

The Company's current policy is to hold excess cash in bank accounts. It periodically monitors the investment income it makes and is satisfied with the credit ratings of its bank.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to monitor forecast cash flows so that it will have sufficient liquidity to meet liabilities when due. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its ongoing requirements. The Company coordinates this planning and budgeting process with its financing activities through its capital management process. The Company expects that it will be able to meet its obligations as they come due from the positive cash flows of ongoing operations. Also, the Company entered into an undrawn US$50 million first lien revolving credit facility (the "RCF") with Scotiabank and Nedbank Ltd. in order to maintain a liquidity cushion for general corporate purposes. In order for the RCF to remain available, certain financial covenants must be met (Note 10). Being able to maintain positive cash flows from operations and the ability to comply with the RCF covenants, and/or maintain sufficient liquidity, is dependent upon many factors including, but not limited to, diamond prices, exchange rates, operating costs and levels of production. Adverse changes in one or more of these factors negatively impact the Company's ability to comply with the covenants and/or maintain sufficient liquidity.

As at December 31, 2018, the Company has an obligation for US$309.9 million or $422.3 million Canadian dollar equivalent (2017 – US$330 million or $414.8 Canadian dollar equivalent) from the secured notes payable. The notes are secured by a second-priority lien on substantially all of the assets which includes the 49% participating rights to the GK Mine, as mentioned in Note 1 and Note 8. The parties under the RCF are granted first priority, if amounts become drawn. Failure to meet the obligations of the secured notes payable as they come due may lead to the sale of the 49% participating interest in the GK Mine.

The following table summarizes the contractual maturities of the Company's significant financial liabilities and capital commitments, including contractual obligations:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
Operating lease obligations	$ 231	$ 471	$ 473	$ 79	$ **1,254**
Gahcho Kué Diamond Mine commitments	1,578	-	-	-	**1,578**
Gahcho Kué Diamond Mine operating lease obligations	798	806	190	-	**1,794**
Revolving credit facility stand by charges	843	808	-	-	**1,651**
Notes payable - Principal	-	-	422,262	-	**422,262**
Notes payable - Interest	34,250	68,594	34,250	-	**137,094**
Forward Exchange Contracts:					
(Inflows)	(33,500)	-	-	-	**(33,500)**
Outflows	34,060	-	-	-	**34,060**
	$ 38,260	**$ 70,679**	**$ 457,175**	**$ 79**	**$ 566,193**

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income and the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.

(i) Interest rate risk

The Company does not have significant exposure to interest rate risk at December 31, 2018 and 2017, since the secured notes payable does not have a variable interest rate. At December 31, 2018, the total secured notes payable was US$309.9 million (2017 – US$330 million).

(ii) Foreign currency

The Company is exposed to market risk related to foreign exchange rates. The Company operates in Canada and has foreign currency exposure to transactions in U.S. dollars. The majority of the ongoing operational costs of the GK Mine are in Canadian dollars, and are funded through operating cash flows. The Company's operating cash flows include the sale of its 49% share of the GK Mine diamonds produced in U.S. dollars.

As at December 31, 2018 and 2017, the Company had cash, accounts payable and accrued liabilities, derivative assets, derivative liabilities, financing costs payable and the secured notes payable that are in U.S. dollars. The Canadian dollar equivalent is as follows:

	December 31, 2018	December 31, 2017
Cash	$ 16,837	$ 25,509
Derivative assets	1,670	963
Accounts payable and accrued liabilities	(2,248)	(3,783)
Derivative liabilities	(653)	-
Secured notes payable	(422,262)	(414,843)
Total	**$ (406,656)**	**$ (392,154)**

A 10% appreciation or depreciation of the Canadian dollar relative to the U.S. dollar at December 31, 2018 and 2017 would have resulted in an increase or decrease to net income for the year of approximately $40.7 million and $39.2 million, respectively.

16. RELATED PARTIES

The Company's related parties include the Operator of the GK Mine, Dermot Desmond, Bottin and Vertigol Unlimited Company ("Vertigol") (corporations ultimately beneficially owned by Dermot Desmond), key management and their close family members, and the Company's directors. During the year ended December 31, 2018, Dermot Desmond and Bottin transferred all owned shares of the Company to Vertigol. Dermot Desmond, indirectly through Vertigol, is the ultimate beneficial owner of greater than 10% of the Company's shares. Kennady Diamonds Inc. ("Kennady Diamonds") was also a related party since the Company and Kennady Diamonds had a common member of key management, until the date of acquisition on April 13, 2018. International Investment and Underwriting Unlimited ("IIU") is also a related party since it is ultimately beneficially owned by Mr. Dermot Desmond.

Related party transactions are recorded at their exchange amount, being the amount agreed to by the parties.

The Company had the following transactions and balances with its related parties including key management personnel including the Company's directors, Dermot Desmond, Vertigol, IIU, the Operator of the GK Mine, and Kennady Diamonds. The transactions with key management personnel are in the nature of remuneration. The transactions with the Operator of the GK Mine relate to the funding of the Company's interest in the GK Mine for the current year's expenditures, capital additions, management fee, and production sales related to the 49% share of fancies and special diamonds. The transactions with Kennady Diamonds are for a monthly management fee charged by the Company for reimbursement of expenses paid on behalf of Kennady Diamonds. The transactions with IIU are for the director fees and travel expenses of the Chairman of the Company.

Between 2014 and 2016, the Company and De Beers signed agreements allowing De Beers ("the Operator") to utilize De Beers' credit facilities to issue reclamation and restoration security deposits to the federal and territorial governments. In accordance with these agreements, the Company agreed to a 3% fee annually for their share of the letters of credit issued. As at December 31, 2018, the Company's share of the letters of credit issued were $23.4 million (December 31, 2017 - $23.4 million).

The balances as at December 31, 2018 and 2017 were as follows:

	December 31, 2018	December 31, 2017
Payable De Beers Canada Inc. as the operator of the GK Mine*	**$ 1,430**	$ 523
Payable to De Beers Canada Inc. for interest on letters of credit	**352**	339
Receivable from De Beers Canada Inc. for sunk cost overpayment	**-**	21
Payable to International Investment and Underwriting	**-**	32
Payable to key management personnel	**57**	178

*included in accounts payable and accrued liabilities

The transactions for the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
The total of the transactions:		
Kennady Diamonds	**$ 30**	$ 90
International Investment and Underwriting	**99**	82
Remuneration to key management personnel	**2,917**	3,828
Sunk cost repayment to De Beers Canada Inc.	**-**	49,063
Diamonds sold to De Beers Canada Inc.	**2,028**	8,791
Diamonds purchased from De Beers Canada Inc.	**29,774**	19,470
Finance costs incurred from De Beers Canada Inc.	**705**	339
Assets purchased from De Beers Canada Inc.	**-**	324
Management fee charged by the Operator of the GK Mine	**4,153**	4,153

The remuneration expense of directors and other members of key management personnel for the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Consulting fees, payroll, director fees, bonus and other short-term benefits	**$ 1,643**	$ 2,707
Share-based payments	**1,324**	1,171
	$ 2,967	$ 3,878

In accordance with International Accounting Standard 24 Related Parties, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

17. INCOME TAXES

Rate Reconciliation

The provision for income tax differs from the amount that would have resulted by applying the combined Canadian statutory income tax rates of approximately 26.5% (2017 – 26.5%):

	December 31, 2018	December 31, 2017
(Loss) income before income taxes	$ (14,816)	$ 17,152
	26.5%	26.5%
Tax expense calculated using statutory rates	(3,926)	4,545
Expenses not deductible (earnings not taxable)	4,656	(3,491)
Change in tax benefits not recognized	(934)	(1,054)
Current and deferred mining taxes	4,322	-
Income tax expenses	$ 4,118	$ -
Current income tax expense*	$ 1,148	$ -
Deferred tax expense	$ 2,970	$ -

*In the current income tax expense, $574 has been paid in the year ended December 31, 2018, with the remaining $574 still outstanding, and presented as income taxes payable.

Components of deferred tax assets and liabilities

	December 31, 2018	December 31, 2017
Deferred tax liabilities		
Inventory	$ (4,993)	$ (4,724)
Property, plant & equipment	(25,275)	(31,606)
Derivative assets	(443)	(255)
Deferred tax asset		
Non-capital loss carryforwards	27,537	36,585
	$ (3,174)	$ -

Unrecognized deferred tax assets

Deductible temporary differences for which deferred tax assets have not been recognized are attributable to the following:

	December 31, 2018	December 31, 2017
Property, plant and equipment	$ 4,693	$ -
Decommissioning and restoration liability	57,929	29,200
Capital losses	3,200	3,420
Non-capital losses, expiring 2034 to 2038	34,247	95,730
Share issuance cost	1,250	3,150
Secured notes payable	36,995	2,439
	$ 138,314	$ 133,939

The Company also has deductible temporary differences of $6,669 (2017 -$34,580) related to the Northwest Territories mining royalty that are not recognized in these financial statements.

18. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of debt, share capital, share-based payments reserve, and net of deficit. The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support the acquisition, exploration and development of mineral properties and ongoing operations (Note 1). The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board of Directors, which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. There is a restrictive covenant on the Company's ability to pay potential future dividends, which relates to a fixed charge coverage ratio of no less than 2:1. The fixed charge coverage ratio is calculated as EBITDA over interest expense. The amount of the dividend, is limited to a maximum dollar threshold which is calculated at an opening basket of US$10 million, plus 50% of the historical consolidated net income reported from the quarter of issuance and up to the most recently available financial statements at the time of such restricted payment.

Management reviews its capital management approach on an ongoing basis.

The Company's capital is summarized as follows:

	December 31, 2018	December 31, 2017
Secured notes payable	**$ 408,144**	$ 396,509
Share capital	**629,796**	475,624
Share-based payments reserve	**6,750**	5,549
Deficit	**(173,765)**	(146,431)
	$ 870,925	$ 731,251

19. SEGMENTED REPORTING

The reportable operating segments are those operations for which operating results are reviewed by the Chief Executive Officer who is the chief operating decision maker regarding decisions about resources to be allocated to the segment and to assess performance provided those operations pass certain quantitative thresholds. Operations with revenues, earnings or losses or assets that exceed 10% of total consolidated revenue, earnings or losses or assets are reportable segments.

As a result of the asset acquisition of Kennady Diamonds Inc. (formerly KDI.V on the TSX Venture exchange), which included all mineral rights of the KNP, the Company now owns multiple diamond projects in the North West Territories, Canada. The GK Mine is a diamond mine in operations, while the KNP resource continues to be developed through exploration and evaluation programs.

As at and for the year ended December 31, 2018

	GK Mine	KNP*	Total
Sales	$ 310,969	$ -	**$ 310,969**
Cost of sales:			
Production costs	117,908	-	**117,908**
Cost of acquired diamonds	32,611	-	**32,611**
Depreciation and depletion	79,419	-	**79,419**
Earnings from mine operations	81,031	-	**81,031**
Exploration and evaluation expenses	3,511	4,693	**8,204**
Selling, general and administrative expenses	14,391	48	**14,439**
Operating income (loss)	63,129	(4,741)	**58,388**
Net finance (expenses) income	(40,567)	3	**(40,564)**
Derivative losses	(247)	-	**(247)**
Foreign exchange losses	(32,473)	(1)	**(32,474)**
Other income	81	-	**81**
Net loss before taxes	$ (10,077)	$ (4,739)	**$ (14,816)**
Total assets	$ 810,901	$ 168,976	**$ 979,877**
Total liabilities	$ 515,246	$ 516	**$ 515,762**

*From the date of acquisition April 13, 2018 (Note 6)