Mountain Province
DIAMONDS

Consolidated Financial Statements
(Expressed in thousands of Canadian Dollars)

MOUNTAIN PROVINCE DIAMONDS INC.

As at and for the years ended December 31, 2019 and 2018

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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 23, 2020

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, 2019. 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 23, 2020

KPMG LLP
Bay Adelaide Centre
333 Bay Street, Suite 4600
Toronto, ON M5H 2S5
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Tel 416-777-8500
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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
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, 2019 and 2018, the related consolidated statements of comprehensive loss, 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, 2019 and 2018, and its financial performance and its cash flows for each of the years then ended, in conformity with International Financial Reporting Standards as issues 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, 2019, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 23, 2020 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.

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.

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 23, 2020

KPMG LLP
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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
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, 2019, 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, 2019, 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, 2019 and 2018, the related consolidated statements of comprehensive loss, equity, and cash flows for each of the years then ended, and the related notes (collectively, the consolidated financial statements), and our report dated March 23, 2020 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, 2019. 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.

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.

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 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 23, 2020

Consolidated Balance Sheets

Expressed in thousands of Canadian dollars

	Notes		December 31, 2019		December 31, 2018
ASSETS					
Current assets					
Cash		$	**34,751**	$	30,708
Amounts receivable	5		**1,688**		2,478
Prepaid expenses and other			**1,179**		1,269
Derivative assets	15		**587**		-
Inventories	7		**111,772**		102,261
			149,977		136,716
Reclamation deposit			**250**		250
Derivative assets	15		**200**		1,670
Property, plant and equipment	4(i)(a) & 8		**672,268**		841,241
Total assets		$	**822,695**	$	979,877
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities	17	$	**47,319**	$	48,295
Derivative liabilities	15		**-**		653
Decommissioning and restoration liability	9		**2,445**		-
Lease liabilities	10		**811**		-
Income taxes payable	18		**-**		574
			50,575		49,522
Secured notes payable	11		**378,869**		408,144
Lease liabilities	10		**1,034**		-
Decommissioning and restoration liability	9		**56,071**		54,922
Deferred income tax liabilities	18		**-**		3,174
Shareholders' equity:					
Share capital	13		**631,224**		629,796
Share-based payments reserve	13		**6,111**		6,750
Deficit			**(302,523)**		(173,765)
Accumulated other comprehensive income	6		**1,334**		1,334
Total shareholders' equity			**336,146**		464,115
Total liabilities and shareholders' equity		$	**822,695**	$	979,877
Commitments and contingencies	**16 & 17**				
Subequent events	**1,15 & 17**				

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

Expressed in thousands of Canadian dollars

	Notes	Year ended December 31, 2019	Year ended December 31, 2018
Sales		$ 276,334	$ 310,969
Cost of sales:			
Production costs		152,585	117,908
Cost of acquired diamonds		16,081	32,611
Depreciation and depletion		82,825	79,419
Earnings from mine operations		24,843	81,031
Impairment loss on property, plant and equipment	8	115,753	-
Exploration and evaluation expenses		8,884	8,204
Selling, general and administrative expenses	14	13,058	14,439
Operating (loss) income		(112,852)	58,388
Net finance expenses	12	(38,637)	(40,564)
Derivative losses	15	(1,214)	(247)
Foreign exchange gains (losses)		20,764	(32,474)
Other income		-	81
Loss before taxes		(131,939)	(14,816)
Current income taxes		7	(1,148)
Deferred income taxes		3,174	(2,970)
Total income taxes		3,181	(4,118)
Net loss for the year		$ (128,758)	$ (18,934)
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 for the year		$ (128,758)	$ (17,600)
Basic and diluted loss per share	13(iv)	$ (0.61)	$ (0.10)
Basic weighted average number of shares outstanding		210,134,192	195,968,588
Diluted weighted average number of shares outstanding		210,134,192	195,968,588

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, 2018		160,253,501	$ 475,624	$ 5,549	$ (146,431)	$ -	$ 334,742
Net loss for the year		-	-	-	(18,934)	-	(18,934)
Share-based payment	**13(iii)**	-	-	1,685	-	-	1,685
Issuance of common shares – restricted share unit		111,668	484	(484)	-	-	-
Share issuance to acquire Kennady Diamonds Inc.	**6**	49,737,307	153,688	-	-	-	153,688
Dividends declared and paid		-	-	-	(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
Net loss for the year		-	-	-	(128,758)	-	(128,758)
Share-based payment	**13(iii)**	-	-	789	-	-	789
Issuance of common shares - restricted share units	**13(iii)**	289,997	1,428	(1,428)	-	-	-
Balance, December 31, 2019		**210,392,473**	**$ 631,224**	**$ 6,111**	**$ (302,523)**	**$ 1,334**	**$ 336,146**

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

Consolidated Statements of Cash Flows

Expressed in thousands of Canadian dollars

	Notes	Year ended December 31, 2019	Year ended December 31, 2018
Cash provided by (used in):			
Operating activities:			
Net loss for the year		**$ (128,758)**	$ (18,934)
Adjustments:			
Net finance expenses		**38,472**	40,564
Depreciation and depletion		**83,043**	79,441
Impairment loss on property, plant and equipment		**115,753**	-
Share-based payment expense		**789**	1,685
Derivative losses		**1,214**	247
Foreign exchange losses (gains)		**(20,764)**	32,474
Current income taxes		**(574)**	574
Deferred income taxes		**(3,174)**	2,970
		86,001	139,021
Changes in non-cash operating working capital:			
Amounts receivable		**790**	842
Prepaid expenses and other		**90**	2,314
Inventories		**(6,740)**	(15,633)
Accounts payable and accrued liabilities		**(782)**	9,359
		79,359	135,903
Investing activities:			
Interest income		**521**	582
Purchase of property, plant and equipment		**(28,095)**	(76,062)
Cash acquired and transaction costs on asset acquisition of Kennady Diamonds Inc.	6	**-**	(4,193)
		(27,574)	(79,673)
Financing activities:			
Payment of lease liabilities		**(808)**	-
Repurchase of secured notes		**(13,158)**	(26,366)
Financing costs		**(33,513)**	(33,371)
Payment of dividends		**-**	(8,400)
		(47,479)	(68,137)
Effect of foreign exchange rate changes on cash		**(263)**	(514)
Increase (decrease) in cash		**4,043**	(12,421)
Cash, beginning of year		**30,708**	43,129
Cash, end of year		**$ 34,751**	$ 30,708

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 operating 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"). KNP is involved in the exploration, discovery, evaluation and development of diamond properties in Canada's Northwest Territories.

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") under the symbol 'MPVD'. As of December 31, 2019, the Company was also listed on the NASDAQ under the same symbol. Subsequent to the year ended December 31, 2019, the Company voluntarily delisted its common shares from the NASDAQ.

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.

Authorization of Financial Statements

These consolidated financial statements were approved by the Board of Directors on March 23, 2020.

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, except as otherwise noted.

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)

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.

(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) 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.

(vi) 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.

(vii) 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, 2019 and 2018 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.

(viii) Loss or earnings per share

Basic loss or earnings per share is calculated by dividing loss or earnings attributable to common shares 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.

(ix) 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.

(x) 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.

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

(xi) 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.

(xii) 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.

(xiii) New accounting policies adopted in the current period

Leases

Effective January 1, 2019, the Company adopted IFRS 16, Leases (“IFRS 16”), using the modified retrospective approach on transition, which specifies how to recognize, measure, present and disclose leases. The comparatives for the 2018 reporting period have not been restated and are accounted for under IAS 17, Leases, as permitted under the specific transitional provisions in the standard. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The right-of-use assets and lease liabilities on the date of implementation are shown in Note 10 of these consolidated financial statements.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Company recognizes the lease payments as an expense in net earnings on a straight-line basis over the term of the lease.

The Company recognized a right-of-use asset and the associated lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial costs incurred and an estimate of cost to remove the underlying asset, less any lease incentives received. Lease payments included in the measurement of the lease liability is comprised of amounts expected to be payable by the Company under residual value guarantees, and the exercise price of a purchase option if the Company is reasonably certain to exercise that option. The right-of-use asset is subsequently measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. The assets are depreciated using the lower of the useful life of the right-of-use asset or the lease term, using the straight-line method.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if the rate cannot be readily determined, the Company’s incremental borrowing rate. The lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to net income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases.

The Company used the following practical expedients permitted by IFRS 16 on transition:

- the accounting for operating leases with a remaining least term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs from the measurement of the right-of-use at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Uncertainty over income tax treatments

Effective January 1, 2019, the Company adopted 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. Upon adoption of IFRIC 23, there was no material impact to these consolidated financial statements.

(xiv) 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.

Conceptual Framework

On March 29, 2018 the IASB issued amendments to references to conceptual frameworks in IFRS Standards. These amendments are effective January 1, 2020. Management has concluded that there is currently no impact of the modified conceptual framework on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Judgments, estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ materially from these 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, 2019, indicators of impairment existed. The indicators were that the enterprise value was significantly below the total assets, combined with a market capitalization significantly lower than the net assets of the Company. These conditions have been present for a significant amount of time. After the Company assessed for impairment, as at December 31, 2019, it was determined that an impairment loss of $115,753 on property, plant and equipment occurred. This impairment loss is specific to the GK Mine CGU. The Company's assessment was that as at December 31, 2019 no indicator of an impairment in the carrying value of its evaluation and exploration assets related to KNP had occurred. 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 GK Mine CGU's recoverable amount of $510.1 million as at December 31, 2019 was determined using the fair value less cost of disposal, which was calculated based on projected future cash flows utilizing the latest information available and Management's estimates, including; throughput and grade, revenues, operating costs, cost of selling diamonds, capital expenditures, foreign exchange rates and diamond price, including anticipated increases in pricing by way of improving market dynamics.

These projected cash flows were prepared using a 0% real growth escalation factor for 2020 and a 2.5% real growth escalation factor on diamond pricing thereafter, and discounted using a post-tax discount rate of 7.55% on cash flows from proven and probable mineral reserves and converted resources, representing the estimated weighted average cost of capital. These rates were estimated based on the capital asset pricing model where the costs of equity were based on,

among other things, estimated interest rates, market returns on equity, share volatility, leverage and risks specific to the mining sector and the GK Mine CGU. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs.

Sensitivities

The projected cash flows and estimated fair value less cost of disposal can be affected by any one or more changes in the estimates used. Changes in diamond price per carat, the real growth escalation factor on diamond pricing and the discount rate have the most substantial influence on the GK Mine CGU's valuation. A 10% increase in diamond price per carat would change the fair value less cost to sell by approximately $131 million. A 0.5% increment in the real growth escalation factor on diamond pricing would change the fair value less cost to sell by approximately $29 million. A 0.5% increment in the discount rate would change the fair value less cost to sell by approximately $11 million. If the GK Mine CGU were to continue to operate at current diamond pricing levels, there would be a further impairment charge.

b) *Leases*

The Company is required to make certain judgments in assessing lease liabilities and right-of-use assets. The Company has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized. Also, the incremental borrowing rate is the rate which the operation would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. This is an area of significant judgment as incremental borrowing rates are not always explicitly stated in the lease agreements being assessed.

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 judgment 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, 2019	December 31, 2018
Receivable from sales agent	**$ -**	$ 180
GST/HST receivable	**936**	1,247
Other receivable	**752**	1,051
Total	**$ 1,688**	$ 2,478

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 received 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 13, 2018, after all conditions precedent were satisfied, 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.

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, 2019		December 31, 2018
Ore stockpile	**$**	**8,592**	$	17,714
Rough diamonds		**70,190**		56,300
Supplies inventory		**32,990**		28,247
Total	**$**	**111,772**	$	102,261

Depreciation and depletion included in inventories at December 31, 2019 is $23,894 (2018 - $21,519).
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, which are included in inventories, for the year ended December 31, 2019 are the Company’s 49% share of payroll and employee benefits for staff of the GK Mine of $38,318 (2018 - $34,017).

8. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment as at December 31, 2019 and 2018 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, 2018	$ 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
Decommissioning and restoration adjustment	(1,604)	-	-	1,919	-	315
January 1, 2019 IFRS 16 lease additions	2,670	-	-	-	-	2,670
Additions/transfers*	35,162	(4,164)	-	-	-	30,998
Impairment loss (See note 4(i)(a))	(115,753)	-	-	-	-	(115,753)
At December 31, 2019	**$ 740,581**	**$ 730**	**$ 90**	**$ 168,866**	**$ 1,564**	**$ 911,831**
Accumulated depreciation						
At January 1, 2018	$ (68,720)	$ -	$ -	$ -	$ -	$ (68,720)
Depreciation and depletion	(83,630)	-	(10)	-	-	(83,640)
At December 31, 2018	(152,350)	-	(10)	-	-	(152,360)
Depreciation and depletion**	(87,190)	-	(13)	-	-	(87,203)
At December 31, 2019	**$ (239,540)**	**$ -**	**$ (23)**	**$ -**	**$ -**	**$ (239,563)**
Carrying amounts						
At December 31, 2018	$ 667,756	$ 4,894	$ 80	$ 166,947	$ 1,564	$ 841,241
At December 31, 2019	**$ 501,041**	**$ 730**	**$ 67**	**$ 168,866**	**$ 1,564**	**$ 672,268**

*Included in additions of property, plant and equipment for GK is $23,896 (2018 - $32,776) related to deferred stripping of which $1,778 relates to the depreciation of earthmoving equipment (2018 - $2,741).
**Included in depreciation and depletion is $1,093 of depreciation on the right-of-use assets capitalized under IFRS 16 (2018 - $nil)

9. DECOMMISSIONING AND RESTORATION LIABILITY

The decommissioning and restoration liability is the addition of the liabilities for both 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, 2019 and 2018:

	December 31, 2019	December 31, 2018
Expected undiscounted cash flows	**$ 58,965**	$ 56,122
Discount rate	**1.76%**	2.18%
Inflation rate	**1.35%**	1.95%
Periods	**2029**	2029

The Kennady North Project decommissioning and restoration liability was calculated using the following assumptions as at December 31, 2019 and 2018:

		December 31, 2019		December 31, 2018
Expected undiscounted cash flows	$	**2,235**	$	175
Discount rate		**3.71%**		1.86%
Inflation rate		**1.96%**		1.95%
Periods		**2023**		2021

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

During the year ended December 30, 2019, the decommissioning and restoration liability was increased by $2,490 for an increase in additional disturbance due to ongoing mining activity. During the year ended December 31, 2018, the decommissioning and restoration liability was increased by $24,892 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 to minimal construction and exploration work performed at the KNP mine site.

The continuity of the decommissioning and restoration liability at December 31, 2019 and 2018 is as follows:

		GK Mine		KNP		Total
Balance, at January 1, 2018	$	29,200	$	-	$	29,200
Addition of balance at the time of KDI acquisition		-		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
Change in estimate of discounted cash flows		571		1,919		2,490
Accretion recorded during the year		1,102		2		1,104
Balance, at December 31, 2019	$	56,429	$	2,087	$	58,516
Less: current portion of decommissioning and restoration liability		2,445		-		2,445
Non-current decommissioning and restoration liability	$	53,984	$	2,087	$	56,071

10. LEASE LIABILITIES

On transition to IFRS 16, the Company recognized additional right-of-use assets (Note 8) and additional lease liabilities. The right-of-use assets include the corporate office and various mining related equipment and vehicles. The impact on transition is summarized below:

		January 1, 2019
Right-of-use assets presented in property, plant and equipment	$	2,670
Lease liabilities	$	2,670

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is approximately 5.4%.

Operating lease commitments at December 31, 2018	$	3,048
Discounted using the incremental borrowing rate at January 1, 2019		2,670
Lease obligations recognized at January 1, 2019	**$**	**2,670**

11. 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.

As at December 31, 2019, the Company has an obligation for US$299.9 million or $389.3 million Canadian dollar equivalent from the secured notes payable (2018 -US$309.9 million or $422.3 million).

		December 31, 2019		December 31, 2018
Total outstanding secured notes payable	**$**	**389,262**	$	422,262
Less: unamortized deferred transaction costs and issuance discount		**10,393**		14,118
Total secured notes payable	**$**	**378,869**	$	408,144

During the year ended December 31, 2019, US$10 million or approximately $13.2 million Canadian dollar equivalent of secured notes payable was purchased by the Company from investors (2018 – US$20.06 million or approximately $26.4 Canadian dollar equivalent).

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

Revolving Credit Facility

Concurrent with the closing of the Notes offering, the Company entered into a 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 fee of 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, 2019, 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, of which the first three are required to be met, in order for the RCF to remain available:

- 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. EBITDA in the RCF is defined as net earnings, plus, but only to the extent deducted in calculating net earnings (i) interest, (ii) income taxes, (iii) depreciation, non-cash expenses and losses, and (iv) amortization, excluding however any unusual items.
- A ratio of EBITDA to interest expense no less than 2.25:1
- 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 (which include dividends) 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 in order to remain available as at December 31, 2019.

12. NET FINANCE EXPENSES

	Year ended December 31, 2019	Year ended December 31, 2018
Interest income	**$ 521**	$ 582
Accretion expense on decommissioning and restoration liability	**(1,104)**	(657)
Interest expense	**(33,048)**	(34,628)
Amortization of deferred financing costs	**(3,726)**	(4,216)
Other finance costs*	**(1,280)**	(1,645)
	$ (38,637)	$ (40,564)

*Included in other finance costs for the year ended December 31, 2019 is $165 (2018 - $nil) related to interest on lease liabilities (Note 10).

13. SHAREHOLDERS’ EQUITY

i. Authorized share capital

Unlimited common shares, without par value.

ii. Share capital

The number of common shares issued and fully paid as at December 31, 2019 is 210,392,473.

No dividends were declared and paid in the year ended December 31, 2019. 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 13, 2019, 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, 2019, the aggregate maximum number of shares pursuant to options granted under the Plan will not exceed 21,039,247 shares, and there were 16,455,912 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:

	Year ended December 31, 2019			Year ended December 31, 2018		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Balance at beginning of the year	**3,130,000**	**$**	**4.17**	3,640,000	$	4.40
Granted during the year	**1,090,000**		**1.30**	240,000		3.30
Expired/forfeited during the year	**(701,665)**		**4.24**	(750,000)		5.00
Balance at end of the year	**3,518,335**	**$**	**3.26**	3,130,000	$	4.17
Options exercisable at the end of the year	**1,972,223**	**$**	**4.32**	2,183,334	$	4.45

The fair value 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 for options granted during the December 31, 2018 and 2019 periods. Expected volatility is calculated by reference to the weekly closing share price for a period that reflects the expected life of the options. The 1,090,000 stock options issued on December 27, 2019 vest 1/3 on December 27, 2020, 1/3 on December 27, 2021 and 1/3 on December 27, 2022. The 200,000 stock options issued on June 30, 2018 vest 1/3 on July 1, 2019, 1/3 on July 1, 2020 and 1/3 on July 1, 2021. The 40,000 stock options issued on June 30, 2018 vest 1/2 on July 1, 2019 and 1/2 on July 1, 2020.

		December 31, 2019	December 31, 2018
Exercise price	**$**	**1.30**	$3.30
Expected volatility		**43.33%**	30.78%
Expected option life		**5 years**	5 years
Contractual option life		**5 years**	5 years
Expected forfeiture		**none**	none
Expected option cancellation		**none**	none
Expected dividend yield		**0%**	0%
Risk-free interest rate		**1.64%**	2.06%

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, 2019. The Black-Scholes values are measured at the grant date.

At December 31, 2019

Expiry Date	Black-Scholes Value	Number of Options	Number of Exercisable Options	Exercise Price
April 13, 2020	925	585,000	585,000	4.66
October 14, 2020	133	100,000	100,000	4.21
December 10, 2020	332	295,000	295,000	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	100,000	5.86
December 21, 2022	967	908,335	605,556	3.48
June 30, 2023	203	200,000	66,667	3.30
June 30, 2023	41	40,000	20,000	3.30
December 27, 2024	436	1,090,000	-	1.30
	$ 3,542	3,518,335	1,972,223	$ 3.26

The weighted average remaining contractual life of the options outstanding at December 31, 2019 is 2.86 years (2018 - 2.63 years).

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, 2019		December 31, 2018	
RSU	**Number of units**	**Weighted average value**	Number of units	Weighted average value
Balance at beginning of year	**368,997**	**$ 5.01**	488,665	$ 4.88
Awards and payouts during the period (net):				
RSUs awarded	**990,000**	**1.13**	-	-
RSUs settled and common shares issued	**(289,997)**	**5.35**	(111,668)	4.33
RSUs forfeited	**(4,000)**	**6.49**	(8,000)	6.49
Balance at end of the year*	**1,065,000**	**$ 1.31**	368,997	$ 5.01

*As at December 31, 2019, 16,667 RSUs (2018, 106,668 RSUs) at a weighted average value of $3.90 have vested and have not yet been settled.

No DSU awards have been granted to date, therefore as at December 31, 2019 there are no DSUs outstanding.

The share-based payments recognized as an expense for the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Expense recognized in the period for share-based payments	**$ 789**	$ 1,685

The share-based payment expense for the years ended December 31, 2019 and 2018 is included in selling, general and administrative expenses.

iv. Loss per share

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

	Year ended December 31, 2019	Year ended December 31, 2018
Numerator		
Net loss for the year	**$ (128,758)**	$ (18,934)
Denominator		
For basic - weighted average number of shares outstanding	**210,134,192**	195,968,588
Effect of dilutive securities	**-**	-
For diluted - adjusted weighted average number of shares outstanding	**210,134,192**	195,968,588
Loss Per Share		
Basic	**$ (0.61)**	$ (0.10)
Diluted	**$ (0.61)**	$ (0.10)

For the years ended December 31, 2019, 3,518,335 stock options and 1,065,000 RSUs were not included in the calculation of diluted loss per share since to include them would be anti-dilutive (2018 - 3,130,000 stock options and 368,997 RSUs).

14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

		Year ended December 31, 2019		Year ended December 31, 2018
Selling and marketing	$	6,219	$	6,607
General and administrative:				
Consulting fees and payroll		2,730		2,297
Share-based payment expense		789		1,685
Depreciation		218		21
Office and administration		608		879
Professional fees		1,032		1,579
Promotion and investor relations		322		264
Director fees		258		328
Transfer agent and regulatory fees		452		536
Travel		430		243
	$	13,058	$	14,439

15. DERIVATIVE ASSETS AND LIABILITIES

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.

The Company entered into foreign currency forward swap 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 swap contracts are recognized in net income or loss as gains or losses on derivatives.

Foreign Currency Forward Contracts

The table below provides a summary of currency contracts outstanding as at December 31, 2019.

Execution Date of Contracts	Settlement Dates of Contracts	Notional Amount (CAD)	Weighted Average Price (USD)	Notional Amount (USD)
May 29, 2019	January 7, 2020 to February 6, 2020	$ 13,430	$ 1.3430	$ 10,000
Total		**$ 13,430**	**$ 1.3430**	**$ 10,000**

The following table presents the various derivatives as at December 31, 2019 and 2018:

	December 31, 2019	December 31 2018
Prepayment option embedded derivatives	**$ 200**	$ 1,670
Foreign currency contract derivative	**587**	(653)
	787	1,017
Current portion of foreign currency contracts	**587**	(653)
Current portion of derivative assets (liabilities)	**587**	(653)
Non-current derivative assets	**$ 200**	$ 1,670

The following table presents amounts recognized in the Consolidated Statement of Comprehensive Loss for the years ended December 31, 2019 and 2018:

	Year ended December 31, 2019	Year ended December 31, 2018
Loss on derivative contracts - currency contracts	**$ (163)**	$ (653)
(Loss) gain on prepayment option embedded derivative	**(1,051)**	406
Total	**$ (1,214)**	$ (247)

Subsequent to the year ended December 31, 2019, the Company executed foreign currency forward contracts to buy Canadian dollars and sell U.S. dollars for the period from March 2, 2020 to June 1, 2021 for notional amounts of US$80,000 or $108,525 with a weighted average price of $1.3566/US$1.

16. 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, 2019	**Assets at amortized cost**	**Fair value through profit and loss**	**Liabilities at amortized cost**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value								
Derivative assets	$ -	$ 787	$ -	$ 787	$ -	$ 787	$ -	$ 787
	$ -	$ 787	$ -	$ 787				
Financial assets not measured at fair value								
Cash	$ 34,751	$ -	$ -	$ 34,751	34,751	-	-	34,751
Amounts receivable	1,688	-	-	1,688	1,688	-	-	1,688
	$ 36,439	$ -	$ -	$ 36,439				
Financial liabilities not measured at fair value								
Accounts payable and accrued liabilities	$ -	$ -	$ 47,319	$ 47,319	47,319	-	-	47,319
Secured notes payable	-	-	378,869	378,869	378,083	-	-	378,083
	$ -	$ -	$ 426,188	$ 426,188				

	Carrying amount				Fair value			
December 31, 2018	**Assets at amortized cost**	**Fair value through profit and loss**	**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 measured 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	412,976		-	412,976
	$ -	$ -	$ 456,439	$ 456,439				

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 15).

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 $1,688 and $2,478 as at December 31, 2019 and 2018, respectively, were collected.

On December 31, 2019 and 2018, 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 $936 (2018 - $1,247).

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. To achieve this, the Company relies on regular sales throughout the year, generally nine or ten tender sales, in addition to occasional sales of fancies and special diamonds to De Beers, in order to fund ongoing operations. At present, Covid-19 has impacted the Company's anticipated tender sale scheduled for March 2020. While the Company believes that the revenue from the deferred sale will be realized in the following sales, and that the Company can continue to make sales on an as required basis, in the current environment the Company's future sales efforts are subject to a significant degree of uncertainty.

Also, the Company has 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 11). 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, all of which are subject to the effects of the Covid-19 pandemic.

As at December 31, 2019, the Company has an obligation for US$299.9 million or $389.3 million Canadian dollar equivalent (2018 – US$309.9 million or $422.3 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 11. 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 impact of recent developments on liquidity markets as a result of COVID-19 is still unknown. The Company continues to monitor the situation surrounding COVID-19 and is prepared to work collaboratively with lenders to fulfill its financial obligations.

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
Gahcho Kué Diamond Mine commitments	$ 2,482	$ -	$ -	$ -	**$ 2,482**
Revolving credit facility stand by charges	770	-	-	-	**770**
Notes payable - Principal	-	389,262	-	-	**389,262**
Notes payable - Interest	31,660	63,147	-	-	**94,807**
Forward Exchange Contracts:					
(Inflows)	(13,430)	-	-	-	**(13,430)**
Outflows	12,978	-	-	-	**12,978**
	$ 34,460	**$ 452,409**	**$ -**	**$ -**	**$ 486,869**

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, 2019 and 2018, since the secured notes payable does not have a variable interest rate. At December 31, 2019, the total secured notes payable was US$299.9 million (2018 – US$309.9 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, 2019 and 2018, 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, 2019	December 31, 2018
Cash	$ 31,682	$ 16,837
Derivative assets	200	1,670
Accounts payable and accrued liabilities	(3,346)	(2,248)
Derivative liabilities	-	(653)
Secured notes payable	(389,262)	(422,262)
Total	**$ (360,726)**	**$ (406,656)**

A 10% appreciation or depreciation of the Canadian dollar relative to the U.S. dollar at December 31, 2019 and 2018 would have resulted in an increase or decrease to net income for the year of approximately $36.1 million and $40.7 million, respectively.

17. 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 of the Chairman of the Company.

Between 2014 and 2018, 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, 2019, the Company's share of the letters of credit issued were $23.3 million (2018 - $23.3 million). Subsequent to the year ended December 31, 2019, the Company and De Beers signed an agreement to reduce the fee from 3% to 0.3%, annually, for their share of the letters of credit issued. Furthermore, on the same day, a resolution was passed by the joint venture management committee to establish a decommissioning fund, where the Company will fund $15 million in 2020, and $10 million for four years thereafter until the Company's 49% share totaling $55 million is fully funded. The targeting funding over time will increase, dependent on future increases to the decommissioning and restoration liability (Note 9).

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.

The balances as at December 31, 2019 and 2018 were as follows:

		December 31, 2019		December 31, 2018
Payable De Beers Canada Inc. as the operator of the GK Mine*	**$**	**12,316**	$	1,430
Payable to De Beers Canada Inc. for interest on letters of credit		**353**		352
Payable to key management personnel		**567**		57

*included in accounts payable and accrued liabilities

The transactions for the years ended December 31, 2019 and 2018 were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
The total of the transactions:		
Kennady Diamonds	**$ -**	$ 30
International Investment and Underwriting	**50**	99
Remuneration to key management personnel	**2,467**	2,917
Diamonds sold to De Beers Canada Inc.	**12,582**	2,028
Diamonds purchased from De Beers Canada Inc.	**16,775**	29,774
Finance costs incurred from De Beers Canada Inc.	**701**	705
Assets purchased from De Beers Canada Inc.	**42**	-
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, 2019 and 2018 were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Consulting fees, payroll, director fees, bonus and other short-term benefits	**$ 1,903**	$ 1,643
Share-based payments	**614**	1,324
	$ 2,517	$ 2,967

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. In addition to the directors of the Company, key management personnel include the CEO and CFO.

18. 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% (2018 – 26.5%):

	December 31, 2019	December 31, 2018
(Loss) before income taxes	$ (131,939)	$ (14,816)
	26.5%	*26.5%*
Tax expense calculated using statutory rates	(34,964)	(3,926)
Expenses not deductible (earnings not taxable)	(2,520)	4,656
Change in tax benefits not recognized	37,484	(934)
Current and deferred mining taxes	(3,181)	4,322
Income tax expenses	$ (3,181)	$ 4,118
Current income tax expense	$ (7)	$ 1,148
Deferred tax expense	$ (3,174)	$ 2,970

Components of deferred tax assets and liabilities

	December 31, 2019	December 31, 2018
Deferred tax liabilities		
Inventory	$ 717	$ (4,993)
Property, plant & equipment	(6,562)	(25,275)
Derivative assets	(53)	(443)
Deferred tax asset		
Non-capital loss carryforwards	5,898	27,537
	$ -	$ (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, 2019	December 31, 2018
Property, plant and equipment	$ 8,823	$ 4,693
Decommissioning and restoration liability	58,273	57,929
Capital losses	2,923	3,200
Non-capital losses, expiring 2034 to 2039	198,701	34,247
Share issuance cost	150	1,250
Secured notes payable	5,771	36,995
	$ 274,641	$ 138,314

19. 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, 2019		December 31, 2018
Secured notes payable	$	**378,869**	$	408,144
Share capital		**631,224**		629,796
Share-based payments reserve		**6,111**		6,750
Deficit		**(302,523)**		(173,765)
	$	**713,681**	$	870,925

20. 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, 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, 2019

	GK Mine	KNP	Total
Sales	$ 276,334	$ -	**$ 276,334**
Cost of sales:			
Production costs	152,585	-	**152,585**
Cost of acquired diamonds	16,081	-	**16,081**
Depreciation and depletion	82,825	-	**82,825**
Earnings from mine operations	24,843	-	**24,843**
Impairment loss on property, plant and equipment	115,753	-	**115,753**
Exploration and evaluation expenses	4,754	4,130	**8,884**
Selling, general and administrative expenses	13,023	35	**13,058**
Operating income (loss)	(108,687)	(4,165)	**(112,852)**
Net finance expenses	(38,635)	(2)	**(38,637)**
Derivative losses	(1,214)	-	**(1,214)**
Foreign exchange gains (losses)	20,765	(1)	**20,764**
Net loss before taxes	$ (127,771)	$ (4,168)	**$ (131,939)**
Total assets	$ 651,898	$ 170,797	**$ 822,695**
Total liabilities	$ 484,270	$ 2,279	**$ 486,549**

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	(40,567)	3	**(40,564)**
Derivative losses	(247)	-	**(247)**
Foreign exchange gains (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**

*The acquisition of KNP occurred on April 13, 2018 therefore the period is from the date of acquisition to December 31, 2018.