Consolidated Financial Statements
(Expressed in thousands of Canadian Dollars)

MOUNTAIN PROVINCE DIAMONDS INC.

As at and for the years ended December 31, 2020 and 2019

CONTENTS

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"	*"Perry Ing"*
Stuart Brown	Perry Ing
President and Chief Executive Officer	VP Finance and Chief Financial Officer

Toronto, Canada

March 29, 2021

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, 2020. 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 29, 2021

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

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors 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, 2020 and December 31, 2019, 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, 2020 and December 31, 2019, and its financial performance and its cash flows for each of the years ended December 31, 2020 and December 31, 2019, in conformity International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 29, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

Critical Audit Matters

Assessment of the recoverable amount of the Gahcho Kue cash generating unit (CGU)

As discussed in Note 7 to the consolidated financial statements, the Company recorded an impairment loss of $217,366 thousand on the Gahcho Kue CGU during the year December 31, 2020. As of December 31, 2020, the Company had $451,411 thousand of property, plant and equipment. An indicator of impairment was identified for the Gahcho Kue CGU as a result of the Company's market capitalization being significantly lower than the net assets of the Company for a prolong period of time through 2020. The Company estimated the recoverable amount of the Gahcho Kue CGU using the Company's life of mine plan, future diamond prices, a discount rate and foreign exchange rates relevant to the CGU.

We identified the assessment of the recoverable amount of the Gahcho Kue CGU as a critical audit matter. A high degree of auditor judgment was required to evaluate the estimated future cash flows used to determine the recoverable amount. Significant assumptions utilized in determining the recoverable amount included future diamond prices, the discount rate, foreign exchange rates, and production levels and costs. Minor Changes in any of these assumptions could have had a significant effect on the determination of the estimated recoverable amount. In addition, auditor judgment was required to assess the mineral reserves and resources which form the basis of the life of mine plan.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's process to determine the recoverable amount of the Gahcho Kue CGU. This included controls over the determination of the future cash flows in the life of mine model and the development of the significant assumptions used to determine the recoverable amount of the CGU. We assessed the future diamond prices by comparing prices used to independent expert reports, analysts' expectations of diamond prices and historical and recent sales prices achieved by the Company. We assessed the estimate of production levels and costs used in the life of mine plan by comparing them to the approved mine plan and historical results. We evaluated the Company's estimated mineral reserves and resources by comparing the Company's historical estimates to actual production results. We assessed the competence, capabilities and objectivity of the Company's personnel who prepared the mineral reserve and resource estimates, including the industry and regulatory standards they applied. We involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating foreign exchange rates by comparing them to third party estimates
- evaluating the discount rate used by comparing to a discount rate that that was independently developed using third party sources and data for comparable entities

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

We have served as the Company's auditor since 1999.

Toronto, Canada
March 29, 2021

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

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited Mountain Province Diamonds Inc.'s (the Company) internal control over financial reporting as of December 31, 2020, 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, 2020, 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, 2020 and December 31, 2019, the related consolidated statements of comprehensive loss, equity, and cash flows for each of the years ended December 31, 2020 and December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated March 29, 2021 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, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are 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 29, 2021

Consolidated Balance Sheets

Expressed in thousands of Canadian dollars

	Notes		December 31, 2020		December 31, 2019
ASSETS					
Current assets					
Cash		$	**35,152**	$	34,751
Amounts receivable	5		**797**		1,688
Prepaid expenses and other			**2,009**		1,179
Derivative assets	14		**23**		587
Inventories	6		**90,506**		111,772
			128,487		149,977
Restricted cash	16		**15,019**		-
Reclamation deposit			**250**		250
Derivative assets	14		**162**		200
Property, plant and equipment	7		**451,411**		672,268
Total assets		$	**595,329**	$	822,695
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities	16	$	**41,010**	$	47,319
Dunebridge revolving credit facility	10 & 16		**31,813**		-
Decommissioning and restoration liability	8		**2,489**		2,445
Lease liabilities			**418**		811
			75,730		50,575
Secured notes payable	9		**374,706**		378,869
Lease liabilities			**750**		1,034
Decommissioning and restoration liability	8		**70,443**		56,071
Shareholders' equity:					
Share capital	12		**631,498**		631,224
Share-based payments reserve	12		**6,820**		6,111
Deficit			**(565,952)**		(302,523)
Accumulated other comprehensive income			**1,334**		1,334
Total shareholders' equity			**73,700**		336,146
Total liabilities and shareholders' equity		$	**595,329**	$	822,695
Going concern	**1**				
Commitments and contingencies	**15 & 16**				
Subequent event	**12(iii)**				

On behalf of the Board:

"Ken Robertson" — **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, 2020		Year ended December 31, 2019
Sales	16	$	226,993	$	276,334
Cost of sales:					
Production costs	6		153,679		152,585
Cost of acquired diamonds			11,088		16,081
Depreciation and depletion			63,711		82,825
(Loss) earnings from mine operations			(1,485)		24,843
Impairment loss on property, plant and equipment	7		217,366		115,753
Exploration and evaluation expenses			3,807		8,884
Selling, general and administrative expenses	13		13,153		13,058
Operating loss			(235,811)		(112,852)
Net finance expenses	11		(39,997)		(38,637)
Derivative gains (losses)	14		127		(1,214)
Foreign exchange gains			12,252		20,764
Loss before taxes			(263,429)		(131,939)
Current income taxes	17		-		7
Deferred income taxes	17		-		3,174
Total income taxes			-		3,181
Net loss for the year		$	(263,429)	$	(128,758)
Total comprehensive loss for the year		$	(263,429)	$	(128,758)
Basic and diluted loss per share	12(iv)	$	(1.25)	$	(0.61)
Basic weighted average number of shares outstanding			210,406,658		210,134,192
Diluted weighted average number of shares outstanding			210,406,658		210,134,192

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, 2019		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	**12(iii)**	-	-	789	-	-	789
Issuance of common shares – restricted share units		289,997	1,428	(1,428)	-	-	-
Balance, December 31, 2019		210,392,473	$ 631,224	$ 6,111	$ (302,523)	$ 1,334	$ 336,146
Net loss for the year		-	-	-	(263,429)	-	(263,429)
Share-based payment	**12(iii)**	-	-	983	-	-	983
Issuance of common shares - restricted share units		98,334	274	(274)	-	-	-
Balance, December 31, 2020		**210,490,807**	**$ 631,498**	**$ 6,820**	**$ (565,952)**	**$ 1,334**	**$ 73,700**

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, 2020	Year ended December 31, 2019
Cash provided by (used in):			
Operating activities:			
Net loss for the year		$ (263,429)	$ (128,758)
Adjustments:			
Net finance expenses		39,907	38,472
Depreciation and depletion		63,929	83,043
Impairment loss on property, plant and equipment		217,366	115,753
Share-based payment expense		983	789
Derivative gain (losses)		(127)	1,214
Foreign exchange gains		(12,252)	(20,764)
Current income taxes		-	(574)
Deferred income taxes		-	(3,174)
		46,377	86,001
Changes in non-cash operating working capital:			
Amounts receivable		890	790
Prepaid expenses and other		(830)	90
Inventories		11,591	(6,740)
Accounts payable and accrued liabilities		(6,280)	(782)
		51,748	79,359
Investing activities:			
Restricted cash		(15,019)	-
Interest income		170	521
Purchase of property, plant and equipment		(38,837)	(28,095)
		(53,686)	(27,574)
Financing activities:			
Payment of lease liabilities		(679)	(808)
Repurchase of secured notes		-	(13,158)
Proceeds from settlement of currency contracts		3,019	-
Provided by revolving credit facility*		32,074	-
Provided by Dunebridge revolving credit facility*		3,019	-
Financing costs		(35,424)	(33,513)
		2,009	(47,479)
Effect of foreign exchange rate changes on cash		330	(263)
Increase in cash		401	4,043
Cash, beginning of year		34,751	30,708
Cash, end of year		$ 35,152	$ 34,751

*The settlement of the previous revolving credit facility occurred directly between Dunebridge and Scotiabank and Nedbank for $32 million, and therefore was a non-cash financing transaction (Note 10).

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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. The Company also owns 100% of the mineral rights of the Kennady North Project ("KNP").

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. During the year ended December 31, 2020, the Company voluntarily delisted its common shares from the NASDAQ.

These consolidated financial statements have been prepared using the going concern basis of preparation which assumes that the Company will realize its assets and settle its liabilities in the normal course of business.

The Company experienced operating losses of $235.8 million for the year ended December 31, 2020 (2019 – operating losses of $112.9). Included in the operating losses is an impairment loss on property, plant and equipment of $217.4 million (2019 – $115.8 million). As at December 31, 2020, the Company had working capital of $52.8 million (2019 – working capital of $99.4 million).

Amid the continuing COVID-19 pandemic, the Company has experienced liquidity challenges primarily resulting from the deferral of the normal diamond sales carried out in Antwerp, Belgium. While the Company had recently resumed its normal sales in September 2020, the risk of decreased sales volumes and realized prices, particularly through 2021, could significantly reduce 2021 revenue. On September 30, 2020, the Company entered into a senior secured revolving credit facility with Dunebridge Worldwide Ltd. ("Dunebridge") (Note 10 and 16) for US$25 million to reassign its previously drawn revolving credit facility ("RCF"). The COVID-19 pandemic has caused issues with respect to supply/demand imbalances and diamond sales in the near-term, particularly in 2021 along with the need to repay the Dunebridge senior secured revolving credit facility ("Dunebridge RCF") by September 30, 2021, funding of ongoing operational costs and semi-annual interest payments on the secured notes may result in a future event of default under the terms of these debt instruments. Furthermore, due to the temporary suspension of mine operations subsequent to the year ended December 31, 2020, additional liquidity challenges have arisen.

Management will seek alternative sources of financing; however, such alternative sources of financing may not be available or at terms acceptable to the Company. Given the challenges related to COVID-19 mentioned above, alternative sources of financing will be required in the near term, in order to fund ongoing operations. The above conditions related to the diamond industry, the Company's operations and the Company's current financing constraints each represent a material uncertainty that results in substantial doubt as to the Company's ability to continue as a going concern. These financial statements do not include the adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. These adjustments may be material.

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.

Authorization of Financial Statements
These consolidated financial statements were approved by the Board of Directors on March 29, 2021.

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 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 49% 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's 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 49% 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 values for RSU's and DSU's are 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 deferred tax assets against deferred tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its deferred 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 exploration and evaluation 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, 2020 and 2019 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.

As outlined in the Dunebridge Sales Agreement (Note 16), the Company recognizes revenue when consideration has been received by the Company, which represents the completion of the performance obligations of the Company and when control is passed to Dunebridge. The agreement contemplates the potential for upside revenue, after fees and expenses, which gives rise to the potential variable consideration within the first three years. The upside variable consideration is only recognized on a net basis, when it can be estimated reliably, is not constrained by external factors out of the Company’s control, and is highly probable that a significant reversal of the amount will not occur in the future.

(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) Financial Instruments

Classification

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

Asset/Liability	Classification
Cash	Amortized cost
Equity securities	FVTOCI
Amounts receivable	Amortized cost
Derivative assets	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Dunebridge revolving credit facility	Amortized cost
Secured notes payable	Amortized cost

Measurement

Financial assets at FVTOCI
Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income.

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

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

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

Derivative asset (liabilities) related to foreign currency contracts, which become realized, are reclassified from derivative gains and losses into realized foreign exchange gains and losses.

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI are reclassified to retained earnings (deficit) as a reclassification within equity.

Financial liabilities

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

(xiv) Leases

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 recognizes 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 are 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.

(xv) Government grants and assistance

Government grants and assistance related to expenses are presented as part of comprehensive loss, as a deduction to the related expense in the reporting period.

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, 2020 and 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 prolonged period of time.

b) *Revenue recognition – variable consideration*

The Company is required to make certain judgments in assessing the variable consideration in relation to the revenue recognition related to transactions under the Dunebridge Sales Agreement (Note 16). The Company has applied judgment to determine whether it is highly probable that a significant reversal of the amount will not occur in the future. This is an area of significant judgment as the amount of consideration is highly susceptible to factors outside of the Company's control, including but not limited to the uncertainty over the COVID-19 pandemic and the resulting macroeconomic factors causing significant volatility over diamond prices. Furthermore, the timing of subsequent sale of these diamonds is not determinable and outside of Management's control, as Dunebridge has control as owner of the diamonds.

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.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

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.

5. AMOUNTS RECEIVABLE

	December 31, 2020	December 31, 2019
GST/HST receivable	**$ 604**	$ 936
Other receivable	**193**	752
Total	**$ 797**	$ 1,688

6. INVENTORIES

	December 31, 2020	December 31, 2019
Ore stockpile	**$ 9,203**	$ 8,592
Rough diamonds	**48,036**	70,190
Supplies inventory	**33,267**	32,990
Total	**$ 90,506**	$ 111,772

Depreciation and depletion included in inventories at December 31, 2020 is $13,663 (December 31, 2019 - $23,894). The amount of inventory expensed approximates cost of sales with respect to production costs incurred, and the cost of acquired diamonds.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

Included in inventories and production costs, for the year ended December 31, 2020 are the Company's 49% share of payroll and employee benefits for staff of the GK Mine of $34,271 (2019 - $38,318). Included in this number is the offset of $7,238 (2019 - $Nil) related to government assistance provided by the Canada emergency wage subsidy.

7. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment as at December 31, 2020 and 2019 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, 2019	$ 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
At December 31, 2019	856,334	730	90	168,866	1,564	1,027,584
Decommissioning and restoration adjustment	9,777	-	-	278	-	10,055
Additions/transfers*	36,334	5,776	-	-	-	42,110
At December 31, 2020	**$ 902,445**	**$ 6,506**	**$ 90**	**$ 169,144**	**$ 1,564**	**$ 1,079,749**
Accumulated depreciation						
At January 1, 2019	$ (152,350)	$ -	$ (10)	$ -	$ -	$ (152,360)
Depreciation and depletion**	(87,190)	-	(13)	-	-	(87,203)
Impairment loss	(115,753)	-	-	-	-	(115,753)
At December 31, 2019	(355,293)	-	(23)	-	-	(355,316)
Depreciation and depletion**	(55,643)	-	(13)	-	-	(55,656)
Impairment loss	(217,366)	-	-	-	-	(217,366)
At December 31, 2020	**$ (628,302)**	**$ -**	**$ (36)**	**$ -**	**$ -**	**$ (628,338)**
Carrying amounts						
At December 31, 2019	$ 501,041	$ 730	$ 67	$ 168,866	$ 1,564	$ 672,268
At December 31, 2020	**$ 274,143**	**$ 6,506**	**$ 54**	**$ 169,144**	**$ 1,564**	**$ 451,411**

*Included in additions of property, plant and equipment for GK is $28,939 (2019 - $23,896) related to deferred stripping of which $1,781 relates to the depreciation of earthmoving equipment (2019 - $1,778).
**Included in depreciation and depletion is $797 of depreciation on the right-of-use assets capitalized under IFRS 16 (2019 - $1,093).

After the Company assessed for impairment, as at December 31, 2020 and 2019, it was determined that an impairment loss of $217,366 and $115,753, respectively, on property, plant and equipment occurred. The impairment losses are specific to the GK Mine CGU.

The GK Mine CGU's recoverable amount of $281.6 million as at December 31, 2020 (2019 - $510.1 million) 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; estimated future diamond prices, discount rates, foreign exchange rates, production levels and costs used to determine future cash flows.

For the assessment at December 31, 2020, these projected cash flows were prepared using a 2.5% real growth escalation factor for 2021 and a 2.5% real growth escalation factor on diamond pricing thereafter, and discounted using a post-tax discount rate of 8.4% on cash flows from proven and probable mineral reserves and converted resources, representing the estimated weighted average cost of capital.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

For the assessment at December 31, 2019, 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

For the assessment at December 31, 2020, 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 $123 million (2019- 131 million). A 0.5% increment in the real growth escalation factor on diamond pricing would change the fair value less cost of disposal by approximately $29 million (2019 – 29 million). A 0.5% increment in the discount rate would change the fair value less cost of disposal by approximately $5 million (2019 - $11 million). If the GK Mine CGU were to continue to operate at current diamond pricing levels, there would be a further impairment charge.

8. DECOMMISSIONING AND RESTORATION LIABILITY

The decommissioning and restoration liability represents 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, 2020 and 2019:

	December 31, 2020	December 31, 2019
Expected undiscounted cash flows	**$ 61,558**	$ 58,965
Discount rate	**0.67%**	1.76%
Inflation rate	**2.00%**	1.35%
Periods	**2030**	2029

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

The Kennady North Project decommissioning and restoration liability was calculated using the following assumptions as at December 31, 2020 and 2019:

		December 31, 2020		December 31, 2019
Expected undiscounted cash flows	$	2,268	$	2,235
Discount rate		0.25%		3.71%
Inflation rate		2.00%		1.96%
Periods		2024		2023

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

During the year ended December 31, 2020, the decommissioning and restoration liability was increased by $13,364 (2019 - $2,490) due to additional disturbance related to ongoing mining activity as well as changes in the discount and inflation rates.

The continuity of the decommissioning and restoration liability at December 31, 2020 and 2019 is as follows:

		GK Mine		KNP		Total
Balance, at January 1, 2019	$	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, at December 31, 2019	$	53,984	$	2,087	$	56,071
Change in estimate of discounted cash flows		13,086		278		13,364
Accretion recorded during the year		976		76		1,052
Balance, at December 31, 2020	$	70,491	$	2,441	$	72,932
Less: current portion of decommissioning and restoration liability		2,489		-		2,489
Non-current decommissioning and restoration liability, at December 31, 2020	$	68,002	$	2,441	$	70,443

9. SECURED NOTES PAYABLE

On December 11, 2017, the Company completed an offering of US$330 million of senior secured notes (“Notes”), secured by a second-ranking lien on all present and future assets, property and undertakings of the Company. The secured notes pay interest in semi-annual instalments on June 15 and December 15 of each year, at a rate of 8.00% per annum, and mature on December 15, 2022. 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.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

As at December 31, 2020, the Company has an obligation for US$299.9 million or $381.7 million Canadian dollar equivalent from the secured notes payable (December 31, 2019 -US$299.9 million or $389.3 million).

	December 31, 2020	December 31, 2019
Total outstanding secured notes payable	$ 381,674	$ 389,262
Less: unamortized deferred transaction costs and issuance discount	6,968	10,393
Total secured notes payable	**$ 374,706**	$ 378,869

During the year ended December 31, 2020, no secured notes payable were purchased by the Company from investors (2019, US$10 million or approximately $13.2 million 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 with the Bank of Nova Scotia ("Scotiabank") and Nedbank Ltd. in order to maintain a liquidity cushion for general corporate purposes. The RCF had a term of three years and the Company was subject to a quarterly commitment fee between 0.9625% and 1.2375%, depending on certain leverage ratio at the time. Upon drawing on the RCF, an interest rate of LIBOR plus 2.5% to 4.5% per annum would be charged for the number of days the funds are outstanding, based on certain leverage ratio at the time. During the second quarter of 2020, the Company withdrew US$25 million from the RCF in order to maintain the liquidity of the business during the challenges faced by COVID-19. The RCF was subject to several financial covenants, in order to remain available which were breached as of June 30, 2020 and for which a waiver was obtained as at July 3, 2020.In exchange, the Company agreed to a reduction in the size of the revolving credit facility to US$25 million from US$50 million and the imposition of additional covenants to August 31, 2020 which the Company complied with. The Company also agreed to repay or provide alternate financing for the US$25 million by September 30, 2020, rather than the original maturity date of December 15, 2020.

On September 30, 2020, the RCF with Scotiabank and Nedbank Ltd. was assigned to Dunebridge. The amount drawn at the time of US$22.7 million was paid by Dunebridge to Scotiabank and Nedbank Ltd. and the remaining available amount of US$2.3 million under the new Dunebridge RCF was advanced to the Company. The Dunebridge RCF terms are described in Note 10 below.

10. DUNEBRIDGE REVOLVING CREDIT FACILITY

On September 30, 2020, the Company entered into the Dunebridge RCF (Note 16) for US$25 million, with first ranking lien terms. The Dunebridge RCF carries an interest rate of 5% per annum, and is repayable on September 30, 2021, therefore has been classified as short-term on the balance sheet. Interest is payable on a monthly basis. The agreement also required an upfront 1% financing fee, which was paid on September 30, 2020. The Dunebridge RCF is not subject to any financial covenants to remain available. A default would occur if the Company is unable to make these monthly interest payments, or the principal repayment.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

The Dunebridge RCF includes various restrictive covenants that requires no additional indebtedness be entered into, and no new agreements related to the sale of Diamonds, beyond what currently exists, without prior written approval from Dunebridge.

Under the Dunebridge RCF, permitted distributions to third parties (which include dividends) are subject to the Company having a net debt to EBITDA ratio of less than or equal to 1.75:1. 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 Dunebridge RCF, (d) interest expenses and (e) any indebtedness (including mandatory prepayments) permitted under the existing agreement. Also, the available liquidity after payment of a distribution must be greater than or equal to US$60 million for distributions paid during a quarter ending March 31, or US$50 million for other quarters, where the aggregate amount of the all advances outstanding does not exceed US$10 million.

The Dunebridge RCF payable is carried at amortized cost on the consolidated balance sheet.

11. NET FINANCE EXPENSES

		Year ended December 31, 2020		Year ended December 31, 2019
Interest income	$	**170**	$	521
Accretion expense on decommissioning and restoration liability		**(1,052)**		(1,104)
Interest expense		**(34,015)**		(33,048)
Amortization of deferred financing costs		**(3,426)**		(3,726)
Other finance costs*		**(1,674)**		(1,280)
	$	**(39,997)**	$	(38,637)

*Included in other finance costs for the year ended December 31, 2020 is $90 (2019 - $165) related to interest on lease liabilities.

12. 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, 2020 is 210,490,807.

No dividends were declared and paid in the year ended December 31, 2020 and 2019.

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

The Company has 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.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

As at December 31, 2020, the aggregate maximum number of shares pursuant to options granted under the Plan will not exceed 21,049,081 shares. 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, 2020			Year ended December 31, 2019		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Balance at beginning of the year	**3,518,335**	**$**	**3.26**	3,130,000	$	4.17
Granted during the year	**-**		**-**	1,090,000		1.30
Expired during the year	**(980,000)**		**4.29**	(600,000)		4.36
Forfeited during the year	**(83,333)**		**2.17**	(101,665)		3.48
Balance at end of the year	**2,455,002**	**$**	**2.89**	3,518,335	$	3.26
Options exercisable at the end of the year	**1,711,669**	**$**	**3.51**	1,972,223	$	4.32

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, 2019 period. 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.

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

The following tables reflect the number of stock options outstanding, the weighted average of stock options outstanding, and the exercise price of stock options outstanding at December 31, 2020. The Black-Scholes values are measured at the grant date.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

At December 31, 2020						
Expiry Date		Black-Scholes Value	Number of Options	Number of Exercisable Options		Exercise Price
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		931	875,002	875,002		3.48
June 30, 2023		203	200,000	133,333		3.30
June 30, 2023		41	40,000	40,000		3.30
December 27, 2024		416	1,040,000	363,334		1.30
	$	2,096	2,455,002	1,711,669	$	2.89

Subsequent to the year ended December 31, 2020, 1,085,000 stock options were granted, with an exercise price of $0.65, and a fair value of $344.

The weighted average remaining contractual life of the options outstanding at December 31, 2020 is 2.72 years (2019 - 2.86 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 the initial grant date 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, 2020			December 31, 2019		
RSU	**Number of units**		**Weighted average value grant date fair value**	Number of units		Weighted average value grant date fair value
Balance at beginning of year	**1,065,000**	**$**	**1.31**	368,997	$	5.01
Awards and payouts during the year (net):						
RSUs awarded	**-**		**-**	990,000		1.13
RSUs settled and common shares issued	**(98,334)**		**2.79**	(289,997)		5.35
RSUs forfeited	**(103,333)**		**1.36**	(4,000)		6.49
Balance at end of the year*	**863,333**	**$**	**1.13**	1,065,000	$	1.31

*As at December 31, 2020, 287,778 RSUs (2019, 16,667 RSUs) have vested and have not yet been settled.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

Subsequent to the year ended December 31, 2020, 1,000,000 RSUs were granted with a fair value of $0.64 per unit.

No DSU awards have been granted to date, therefore as at December 31, 2020 there are no DSUs outstanding.

The share-based payments recognized as an expense for the year ended December 31, 2020 and 2019 are as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Expense recognized in the year for share-based payments	$ 983	$ 789

The share-based payment expense for the year ended December 31, 2020 and 2019 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, 2020	Year ended December 31, 2019
Numerator		
Net loss for the year	$ (263,429)	$ (128,758)
Denominator		
For basic - weighted average number of shares outstanding	210,406,658	210,134,192
Effect of dilutive securities	-	-
For diluted - adjusted weighted average number of shares outstanding	210,406,658	210,134,192
Loss Per Share		
Basic	$ (1.25)	$ (0.61)
Diluted	$ (1.25)	$ (0.61)

For the year ended December 31, 2020, 2,455,002 stock options and 863,333 RSUs were not included in the calculation of diluted loss per share since to include them would be anti-dilutive (2019 - 3,518,335 stock options and 1,065,000 RSUs).

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

		Year ended December 31, 2020		Year ended December 31, 2019
Selling and marketing	$	5,259	$	6,219
General and administrative:				
Consulting fees and payroll		1,946		2,730
Share-based payment expense		983		789
Depreciation		218		218
Office and administration		878		608
Professional fees		2,588		1,032
Promotion and investor relations		428		322
Director fees		278		258
Transfer agent and regulatory fees		461		452
Travel		114		430
	$	13,153	$	13,058

14. DERIVATIVE ASSETS AND LIABILITIES

The 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:

- 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.

During 2020, 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. During the year ended December 31, 2020, all foreign currency forward swaps, previously entered into were settled, as a result of the RCF settlement in the year (Note 9). 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.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

The following table presents the various derivatives as at December 31, 2020 and 2019:

		December 31, 2020		December 31 2019
Prepayment option embedded derivatives	**$**	**185**	$	200
Foreign currency contract derivative assets		**-**		587
		185		787
Current portion of embedded derivatives		**23**		-
Current portion of foreign currency contracts assets		**-**		587
Current portion of derivative assets		**23**		587
Non-current derivative assets	**$**	**162**	$	200

The following table presents amounts recognized in the Consolidated Statement of Comprehensive Loss for the year ended December 31, 2020 and 2019:

		Year ended December 31, 2020		Year ended December 31, 2019
Gain (loss) on derivative contracts - currency contracts	**$**	**158**	$	(163)
Loss on prepayment option embedded derivative		**(31)**		(1,051)
Total	**$**	**127**	$	(1,214)

15. FINANCIAL INSTRUMENTS

Fair value measurement

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

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

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

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

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

	Carrying amount				Fair value			
December 31, 2020	**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	$ -	$ 185	$ -	$ 185	$ -	$ 185	$ -	$ 185
	$ -	$ 185	$ -	$ 185				
Financial assets not measured at fair value								
Cash	$ 35,152	$ -	$ -	$ 35,152	35,152	-	-	35,152
Restricted cash	15,019	-	-	15,019	15,019	-	-	15,019
Amounts receivable	797	-	-	797	797	-	-	797
	$ 50,968	$ -	$ -	$ 50,968				
Financial liabilities not measured at fair value								
Accounts payable and accrued liabilities	$ -	$ -	$ 41,010	$ 41,010	41,010	-	-	41,010
Dunebridge revolving credit facility	-	-	31,813	31,813	-	31,813	-	31,813
Secured notes payable	-	-	374,706	374,706	329,632	-	-	329,632
	$ -	$ -	$ 447,529	$ 447,529				

	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				

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 9).

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 $797 and $1,688 as at December 31, 2020 and 2019, respectively, were collected.

On December 31, 2020 and 2019, 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 $604 (2019 - $936).

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. 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. Due to COVID-19, the Company expects that it may not be able to meet its obligations as they come due for ongoing operations.

Due to the impact of COVID-19, during the year ended December 31, 2020, the Company entered into an agreement to sell up to US$100 million of diamonds to Dunebridge. The agreement permits the Company to sell its run of mine diamonds (below 10.8 carats) at the estimated prevailing market price at the time of each sale. As at December 31, 2020, approximately US$49.4 million of run of mine diamonds have been sold under the agreement. The agreement provides the Company with additional liquidity support, in the event that the traditional sales channel becomes disrupted, however it does not guarantee Dunebridge will purchase them. At present, COVID-19 potential future travel restrictions and lockdowns could inhibit the ability to carry on the normal sales in Antwerp, Belgium.

Being able to maintain positive cash flows from operations and 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 ongoing COVID-19 pandemic. Furthermore, due to the temporary suspension of operations subsequent to the year ended December 31, 2020, additional liquidity challenges have arisen (See Note 1).

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

As at December 31, 2020, the Company has an obligation for US$299.9 million or $381.7 million Canadian dollar equivalent (2019 – US$299.9 million or $389.3 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. The Dunebridge RCF is granted first priority, if amounts are 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. On September 30, 2020, the RCF with Scotiabank and Nedbank Ltd. was assigned to Dunebridge (Note 10 and 16).

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	$ 4,058	$ -	$ -	$ -	**$ 4,058**
Gahcho Kué Diamond Mine decommissioning fund	10,000	20,000	10,000	-	**40,000**
Dunebridge revolving credit facility - Principal	31,813	-	-	-	**31,813**
Dunebridge revolving credit facility - Interest	1,193	-	-	-	**1,193**
Notes payable - Principal	-	381,674	-	-	**381,674**
Notes payable - Interest	30,958	30,958	-	-	**61,916**
	$ 78,022	**$ 432,632**	**$ 10,000**	**$ -**	**$ 520,654**

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, 2020 and 2019, since the secured notes payable and Dunebridge RCF do not have variable interest rates. At December 31, 2020, the total secured notes payable was US$299.9 million (2019 – US$299.9 million) and the Dunebridge RCF was US$25 million (2019 - $Nil).

(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, in U.S. dollars, of its 49% share of the GK Mine diamonds produced.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

As at December 31, 2020 and 2019, the Company had cash, derivative assets, accounts payable and accrued liabilities, the Dunebridge revolving credit facility and the secured notes payable that are in U.S. dollars. The Canadian dollar equivalent is as follows:

		December 31, 2020		December 31, 2019
Cash	$	33,703	$	31,682
Derivative assets		185		200
Accounts payable and accrued liabilities		(2,538)		(3,346)
Dunebridge revolving credit facility		(31,813)		-
Secured notes payable		(381,674)		(389,262)
Total	**$**	**(382,137)**	**$**	**(360,726)**

A 10% appreciation or depreciation of the Canadian dollar relative to the U.S. dollar at December 31, 2020 and 2019 would have resulted in an increase or decrease to net income for the year of approximately $38.2 million and $36.1 million, respectively.

16. RELATED PARTIES

The Company's related parties include the Operator of the GK Mine, Dermot Desmond, Dunebridge Worldwide Ltd. and Vertigol Unlimited Company ("Vertigol") (corporations ultimately beneficially owned by Dermot Desmond), key management and their close family members, and the Company's directors. Dermot Desmond, indirectly through Vertigol, is the ultimate beneficial owner of greater than 10% of the Company's shares. International Investment Underwriting ("IIU") is also a related party since it is ultimately beneficially owned by 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, Dunebridge, Vertigol, IIU and the Operator of the GK Mine. 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 IIU are for the director fees of the Chairman of the Company.

In the second quarter of 2020, the Company entered into an agreement to sell up to US$50 million of diamonds to Dunebridge. The agreement permits the Company to sell its run of mine diamonds (below 10.8 carats) at the estimated prevailing market price at the time of each sale. The transaction also allows the Company to participate, after fees and expenses in a portion of any increase in the value of diamonds realized by Dunebridge upon its future sale of diamonds to a third party. Dunebridge is entitled to receive 10% annualized returns in respect to these future sales of Dunebridge diamonds, calculated with reference to each specific Dunebridge sales parcel. These fees are fixed at 10% of the amount of the future sales for the first year. In the second and third year following the date of Dunebridge diamond purchase from the Company, an additional 10% of the amount of the future sale is compounded and pro-rated based on the amount of time in each of the second and third years have passed. After three years, the agreement is effectively terminated, and any upside realized by Dunebridge will not be shared with the Company. The expenses relate to any future sale costs. Once all fees and expenses have been deducted any surplus will be shared equally between Dunebridge and the Company. The purchase price has been determined using the Company's price book, adjusted for the estimated current underlying market conditions. As at December 31, 2020, approximately US$49.4 million of run of mine diamonds have been sold under the agreement. On September 29, 2020, the shareholders approved to have this agreement amended to increase the total sales value from US$50 million of diamonds, to US$100 million. Effective November 6, 2020, the new agreement with the incremental increase to US$100 million was executed. At present, the sale related to a portion of Dunebridge inventory is in the process of closing.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

On September 30, 2020, the Company entered into the Dunebridge RCF for US$25 million to reassign the previous RCF, with first ranking lien terms. The Dunebridge RCF carries an interest rate of 5% per annum, and is repayable on September 30, 2021 (Note 10). The agreement included an upfront 1% financing fee, which was paid on September 30, 2020.

Between 2014 and 2020, 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, 2020, the Company's share of the letters of credit issued were $44.1 million (2019 - $23.3 million).

During the year ended December 31, 2020, 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, 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 each year 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. During the year ended December 31, 2020, the Company funded $15 million into the decommissioning fund, which is presented as restricted cash on the balance sheet.

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, 2020 and 2019 were as follows:

		December 31, 2020		December 31, 2019
Payable De Beers Canada Inc. as the operator of the GK Mine*	$	2,789	$	12,316
Payable to De Beers Canada Inc. for interest on letters of credit		550		353
Revolving credit facility with Dunebridge Worldwide Ltd.		31,813		-
Payable to key management personnel		158		567

*included in accounts payable and accrued liabilities

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

The transactions for the year ended December 31, 2020 and 2019 were as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
The total of the transactions:		
International Investment and Underwriting	$ 23	$ 50
Remuneration to key management personnel	1,875	2,467
Diamonds sold to Dunebridge Worldwide Ltd.	66,671	-
Diamonds sold to De Beers Canada Inc.	12,610	12,582
Diamonds purchased from De Beers Canada Inc.	11,523	16,775
Finance costs incurred from De Beers Canada Inc.	198	701
Finance costs incurred from Dunebridge Worldwide Ltd.	852	-
Assets purchased from De Beers Canada Inc.	42	42
Management fee charged by the Operator of the GK Mine	4,368	4,153

The remuneration expense of directors and other members of key management personnel for the year ended December 31, 2020 and 2019 were as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Consulting fees, payroll, director fees, bonus and other short-term benefits	$ 1,357	$ 1,903
Share-based payments	541	614
	$ 1,898	$ 2,517

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.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

17. INCOME TAXES

Rate Reconciliation

The provision for income tax differs from the amount that would have resulted by applying the combined Canadian statutory income tax rates of approximately 26.5% (2019 – 26.5%):

		December 31, 2020		December 31, 2019
Loss before income taxes	**$**	**(263,429)**	$	(131,939)
		26.5%		*26.5%*
Tax expense calculated using statutory rates		**(69,809)**		(34,964)
Expenses not deductible (earnings not taxable)		**(1,185)**		(2,520)
Change in tax benefits not recognized		**70,994**		37,484
Current and deferred mining taxes		**-**		(3,181)
Income tax expenses	**$**	**-**	$	(3,181)
Current income tax expense	**$**	**-**	$	(7)
Deferred tax expense	**$**	**-**	$	(3,174)

Components of deferred tax assets and liabilities

		December 31, 2020		December 31, 2019
Deferred tax liabilities				
Inventory	**$**	**(449)**	$	717
Property, plant & equipment		**(30)**		(6,562)
Derivative assets and debt		**(519)**		(53)
Deferred tax asset				
Non-capital & capital loss carryforwards		**998**		5,898
	$	**-**	$	-

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

Unrecognized deferred tax assets

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

	December 31, 2020	December 31, 2019
Property, plant and equipment	$ 104,795	$ 8,823
Decommissioning and restoration liability	71,923	58,273
Capital losses	426	2,923
Non-capital losses, expiring 2034 to 2040	351,218	198,701
Share issuance cost	178	150
Secured notes payable	-	5,771
	$ 528,540	$ 274,641

The Company also has unrecognized deductible temporary differences of $277.8 million for Northwest Territories Mining Royalty purposes at December 31, 2020 (December 31, 2019 - $57.8 million)

18. CAPITAL MANAGEMENT

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

The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board of Directors, which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. In accordance with the Dunebridge RCF, permitted distributions to third parties (which include dividends) are subject to the Company having a net debt to EBITDA ratio of less than or equal to 1.75:1. 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 Dunebridge RCF, (d) interest expenses and (e) any indebtedness (including mandatory prepayments) permitted under the existing agreement. Also, the available liquidity after payment of a distribution must be greater than or equal to US$60 million for distributions paid during a quarter ending March 31, or US$50 million for other quarters, where the aggregate amount of the all advances outstanding does not exceed US$10 million.

Management reviews its capital management approach on an ongoing basis.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

The Company's capital is summarized as follows:

		December 31, 2020		December 31, 2019
Secured notes payable	$	374,706	$	378,869
Dunebridge revolving credit facility		31,813		-
Share capital		631,498		631,224
Share-based payments reserve		6,820		6,111
Deficit		(565,952)		(302,523)
	$	478,885	$	713,681

19. SEGMENTED REPORTING

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

As a result of the asset acquisition of Kennady, 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.

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

As at and for the year ended December 31, 2020

	GK Mine	KNP	Total
Sales	$ 226,993	$ -	**$ 226,993**
Cost of sales:			
Production costs	153,679	-	**153,679**
Cost of acquired diamonds	11,088	-	**11,088**
Depreciation and depletion	63,711	-	**63,711**
Loss from mine operations	(1,485)	-	**(1,485)**
Impairment loss on property, plant and equipment	217,366	-	**217,366**
Exploration and evaluation expenses	1,076	2,731	**3,807**
Selling, general and administrative expenses	13,110	43	**13,153**
Operating loss	(233,037)	(2,774)	**(235,811)**
Net finance expenses	(39,920)	(77)	**(39,997)**
Derivative gains	127	-	**127**
Foreign exchange gains	12,252	-	**12,252**
Net loss before taxes	$ (260,578)	$ (2,851)	**$ (263,429)**
Total assets	$ 424,272	$ 171,057	**$ 595,329**
Total liabilities	$ 519,074	$ 2,555	**$ 521,629**

Amounts in thousands of Canadian Dollars, except share and per share amounts, unless otherwise noted

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 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