



# **Management's Discussion and Analysis**

**For the Year Ended December 31, 2020**

**TSX: MPVD**

**MOUNTAIN PROVINCE DIAMONDS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
FOR THE YEAR ENDED DECEMBER 31, 2020

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This Management's Discussion and Analysis ("MD&A") as of March 29, 2021 provides a review of the financial performance of Mountain Province Diamonds Inc. (the "Company" or "Mountain Province" or "MPV") and should be read in conjunction with the audited consolidated financial statements and the notes thereto as at December 31, 2020 and for the years ended December 31, 2020 and 2019. The following MD&A has been approved by the Board of Directors.

The audited consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All amounts are expressed in thousands of Canadian dollars, except share and per share amounts, unless otherwise noted.

The disclosure in this MD&A of scientific and technical information regarding exploration projects on Mountain Province's mineral properties has been reviewed and approved by Tom McCandless, Ph.D., P.Geo., while that regarding mine development and operations has been reviewed and approved by Matthew MacPhail, P.Eng., MBA, both of whom are Qualified Persons as defined by National Instrument 43-101 - Standards of Disclosure for Mineral Properties ("NI 43-101").

Additional information, related to the Company is available on SEDAR at <http://sedar.com/> and on EDGAR at <http://www.sec.gov/edgar.shtml>.

## HIGHLIGHTS

- Cash at December 31, 2020 was \$35,152 with net working capital of \$52,757. Cash at December 31, 2019 was \$34,751 with net working capital of \$99,402.
- On September 30, 2020, the first lien revolving credit facility with Scotiabank and Nedbank Ltd. (“RCF”) was assigned to Dunebridge Worldwide Ltd. (“Dunebridge”) (See Related Party Transactions section below). The amount drawn at the time of US\$22.7 million was paid by Dunebridge to Scotiabank and Nedbank Ltd. and US\$2.3 million was advanced to the Company (Please refer to note 10 and 16 of the financial statements).
- Earnings from mine operations for the three months ended December 31, 2020, were \$22,823 compared to \$3,001 for the same period in 2019. Loss from mine operations for the year ended December 31, 2020, amounted to \$1,485 compared to earnings from mine operations of \$24,843 for the same period in 2019.
- Net loss for the three months and year ended December 31, 2020, respectively, was \$189,166 and \$263,429 or \$0.90 and \$1.25 loss per share (basic and diluted) compared to net loss of \$115,725 and \$128,758, or \$0.55 and \$0.61 loss per share (basic and diluted) for the prior comparative periods. Adjusted EBITDA for these periods were \$37,002 and \$51,233 compared to \$17,648 and \$87,055, respectively (Adjusted EBITDA is not defined under IFRS and therefore may not be comparable to similar measures presented by other issuers; refer to the Non-IFRS Measures section). Included in net loss for three months and year ended December 31, 2020 is an impairment loss of \$217,366, compared to \$115,753 for the same period in 2019.
- During the year ended December 31, 2020, the Company entered into an agreement to sell up to US\$50 million of diamonds to Dunebridge. The first sale occurred in June 2020, with three further sales completed in the three-month period ended September 30, 2020. The sales to Dunebridge were US\$49.4 million at an average of US\$33 per carat. Later during the year ended December 31, 2020, the Company entered into an agreement to amend the upper limit from US\$50 million to US\$100 million to provide an additional liquidity cushion (See Related Party Transactions section below). No further sales occurred with Dunebridge in the three months ended December 31, 2020.
- In the fourth quarter of 2020, the Company sold 957,000 carats and recognized revenue of \$80,206 at an average realized value of \$84 per carat (US\$65) compared to sales in the fourth quarter of 2019 totaling 772,000 carats and recognized revenue of \$65,032 at an average realized value of \$84 per carat (US\$64). Revenue for the year ended December 31, 2020 totaled \$226,993 including direct sales of fancies and specials made to De Beers Canada Inc. at an average realized value of \$68 per carat (US\$51) compared to revenue for the year ended December 31, 2019 of \$276,334 at an average realized value of \$84 per carat (US\$63).
- On October 30, 2020, the Company held a formal sale in Antwerp, Belgium and realized its largest open market sale to date of \$45.7 million (US\$34.3 million) resulting in an average realized value of \$81 per carat (US\$61 per carat).
- Mining of waste and ore in the 5034, Hearne and Tuzo open pits for the year ended December 31, 2020 was approximately 23,491,000 tonnes, 10,917,000 tonnes and 1,462,000 tonnes, respectively, for a total of 35,870,000 tonnes. This represents a 17% decrease in tonnes mined over the comparative period in 2019, mainly due to the COVID-19 safety protocols over mining operations. Ore mined for the year totaled 3,287,000 tonnes, with approximately 269,000 tonnes of ore stockpile available at year end on a 100% basis. For the comparative year ended December 31, 2019, ore mined totaled 3,247,000 tonnes, with approximately 228,000 tonnes of ore stockpile on a 100% basis.
- For the year ended December 31, 2020, the GK Mine treated approximately 3,246,000 tonnes of ore and recovered approximately 6,518,000 carats on a 100% basis for an average recovered grade of approximately 2.01 carats per tonne (“cpt”). For the comparative year ended December 31, 2019, the GK Mine treated

approximately 3,581,000 tonnes of ore and recovered approximately 6,821,000 carats on a 100% basis for an average recovered grade of approximately 1.90 cpt.

- Cash costs of production, including capitalized stripping costs, for the three months ended December 31, 2020 were \$116 per tonne, and \$56 per carat recovered. Cash cost of production, including capitalized stripping costs, for the year ended December 31, 2020 were \$103 per tonne and \$51 per carat recovered. Cash costs of production, including capitalized stripping costs, for the three months ended December 31, 2019 were \$103 per tonne, and \$49 per carat recovered. Cash cost of production, including capitalized stripping costs, for the year ended December 31, 2019 were \$103 per tonne and \$54 per carat recovered (cash costs of production per tonne and per carat are not defined under IFRS and may not be comparable to similar measures presented by other issuers; refer to the Non-IFRS Measures section). The cost amounts in the year ended December 31, 2020 compared to the same period last year are consistent.
- Subsequent to the year ended December 31, 2020, there was an outbreak of COVID-19 at the mine site, which resulted in a temporary suspension of production related activities. After all of the necessary containment and quarantining efforts, as well as the ongoing maintenance of all essential activities such as water management, power generation, catering and employee care, all production related activities began ramp-up on February 28, 2021. This disruption in production related activity has deferred certain mining sequencing in the short-term.

The following table summarizes key operating highlights for the three months and year ended December 31, 2020 and 2019.

		Three months ended December 31, 2020	Three months ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2019
<b>GK operating data</b>					
<i>Mining</i>					
*Ore tonnes mined	kilo tonnes	840	891	3,287	3,247
*Waste tonnes mined	kilo tonnes	8,956	10,199	32,583	39,978
*Total tonnes mined	kilo tonnes	9,796	11,090	35,870	43,225
*Ore in stockpile	kilo tonnes	269	228	269	228
<i>Processing</i>					
*Ore tonnes treated	kilo tonnes	736	937	3,246	3,581
*Average plant throughput	tonnes per day	8,270	10,297	8,869	9,811
*Average plant grade	carats per tonne	2.07	2.11	2.01	1.90
*Diamonds recovered	000's carats	1,521	1,978	6,518	6,821
Approximate diamonds recovered - Mountain Province	000's carats	745	969	3,194	3,342
Cash costs of production per tonne, net of capitalized stripping **	\$	89	99	86	91
Cash costs of production per tonne of ore, including capitalized stripping**	\$	116	103	103	103
Cash costs of production per carat recovered, net of capitalized stripping**	\$	43	47	43	48
Cash costs of production per carat recovered, including capitalized stripping**	\$	56	49	51	54
<i>Sales</i>					
Approximate diamonds sold - Mountain Province***	000's carats	957	772	3,329	3,284
Average diamond sales price per carat	US \$	65	64	51	63

\* at 100% interest in the GK Mine

\*\*See Non-IFRS Measures section

\*\*\*Includes the sales directly to De Beers for fancies and specials acquired by De Beers through the production split bidding process

## COMPANY OVERVIEW

Mountain Province is a Canadian-based resource company listed on the Toronto Stock Exchange under the symbol 'MPVD'. The Company's registered office and its principal place of business is 161 Bay Street, Suite 1410, P.O. Box 216, Toronto, ON, Canada, M5J 2S1. The Company, through its wholly owned subsidiaries 2435572 Ontario Inc. and 2435386 Ontario Inc., holds a 49% interest in the Gahcho Kué diamond mine (the "GK Mine"), located in the Northwest Territories of Canada. De Beers Canada Inc. ("De Beers" or the "Operator") holds the remaining 51%

interest. The Joint Arrangement between the Company and De Beers is governed by the 2009 amended and restated Joint Venture Agreement.

The Company's primary assets are its aforementioned 49% interest in the GK Mine and 100% owned Kennady North Project ("KNP" or "Kennady North").

The Company's strategy is to mine and sell its 49% share of rough diamonds at the highest price on the day of the close of the sale. Despite the impact of the COVID-19 pandemic, the Company's long-term view of the rough diamond market remains positive, based on the outlook for a tightening rough diamond supply and growing demand, particularly in developing markets such as China and India, resulting in real, long term price growth. The Company also expects to build value through further exploration and development of the Kennady North Project which covers properties adjacent to the GK Mine.

## **GAHCHO KUÉ DIAMOND MINE**

### **Gahcho Kué Joint Venture Agreement**

The GK Mine is located in the Northwest Territories, approximately 300 kilometers northeast of Yellowknife. The mine covers 10,353 hectares, and encompasses four mining leases (numbers 4341, 4199, 4200, and 4201) held in trust by the Operator. The Project hosts four primary kimberlite bodies – 5034, Hearne, Tuzo and Tesla. The four main kimberlite bodies are within two kilometers of each other.

The GK Mine is an unincorporated Joint Arrangement between De Beers (51%) and Mountain Province (49%) through its wholly owned subsidiaries. The Company accounts for the mine as a joint operation in accordance with International Financial Reporting Standard 11, *Joint Arrangements*. Mountain Province through its subsidiaries holds an undivided 49% ownership interest in the assets, liabilities and expenses of the GK Mine.

Between 2014 and 2020, the Company and De Beers signed agreements allowing 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 annually for four years thereafter until the Company's 49% share totaling \$55 million is fully funded. The target funding may change over time, dependent on future changes to the decommissioning and restoration liability. During the year ended December 31, 2020, the Company funded \$15 million into the decommissioning fund, and is presented as restricted cash on the balance sheet of the financial statements.

### **Mining and Processing**

For the three months and year ended December 31, 2020, on a 100% basis, a total of 9.8 million and 35.9 million tonnes of waste and ore had been extracted from the 5034, Hearne and Tuzo open pits, compared to the original three months and year ended December 31, 2020 planned production of approximately 10.0 million and 42.7 million tonnes, respectively (98% and 84% of plan respectively). The lower mining efficiency was as a result of the mining changes implemented to reduce costs amid the COVID-19 pandemic as well as personnel shortages as a result of the impact of the COVID-19 pandemic operating policies implemented, although some mitigating action has been possible the impact of reduced manpower has been a factor throughout the year. For the three months and year ended December 31, 2019, a total of 11.0 million and 43.2 million tonnes of waste and ore had been extracted from the 5034 and Hearne open pits, compared to an original plan of approximately 10.6 million and 45.2 million tonnes,

respectively (103% and 95% of plan respectively), as a result of harsher weather conditions than normal and equipment availability issues during the winter months.

Total ore tonnes mined in the three months and year ended December 31, 2020 were 840,000 tonnes and 3,287,000 tonnes compared to 891,000 tonnes and 3,247,000 tonnes for the same periods in 2019. The total ore tonnes mined were slightly lower than the comparative Q4 period due to revised scheduling and ore availability.

For the three months and year ended December 31, 2020, 736,000 tonnes and 3,246,000 tonnes of kimberlite ore were treated (compared to an original plan of 824,000 tonnes and 3,350,000 tonnes), with 1,521,000 carats and 6,518,000 carats (100% basis) recovered, at a grade of 2.07 carats per tonne and 2.01 carats per tonne respectively. For the three months and year ended December 31, 2019, 937,000 tonnes and 3,581,000 tonnes of kimberlite ore were treated, with 1,978,000 carats and 6,821,000 carats recovered, at a grade of 2.11 carats per tonne and 1.90 carats per tonne respectively.

The plant treated 736,000 tonnes and recovered over 1,521,000 carats in Q4 2020, 21% lower than the same period last year due mainly to ore availability and revised scheduling due to the COVID-19 pandemic.

At December 31, 2020, there was approximately 269,000 tonnes (100% basis) of stockpiled ore.

At December 31, 2020, the GK Mine had 549,747 carats on a 100% basis in rough diamond inventory at the GK Mine and at the sorting facility in Yellowknife. The Company had 507,236 carats within its sale preparation channel plus its share of carats at the GK Mine and sorting facility for a total of 775,308 carats in inventory. For the year ended December 31, 2020, the Company recorded a \$17 million write-down to reduce the carrying value of rough diamond inventory and ore stockpile inventory.

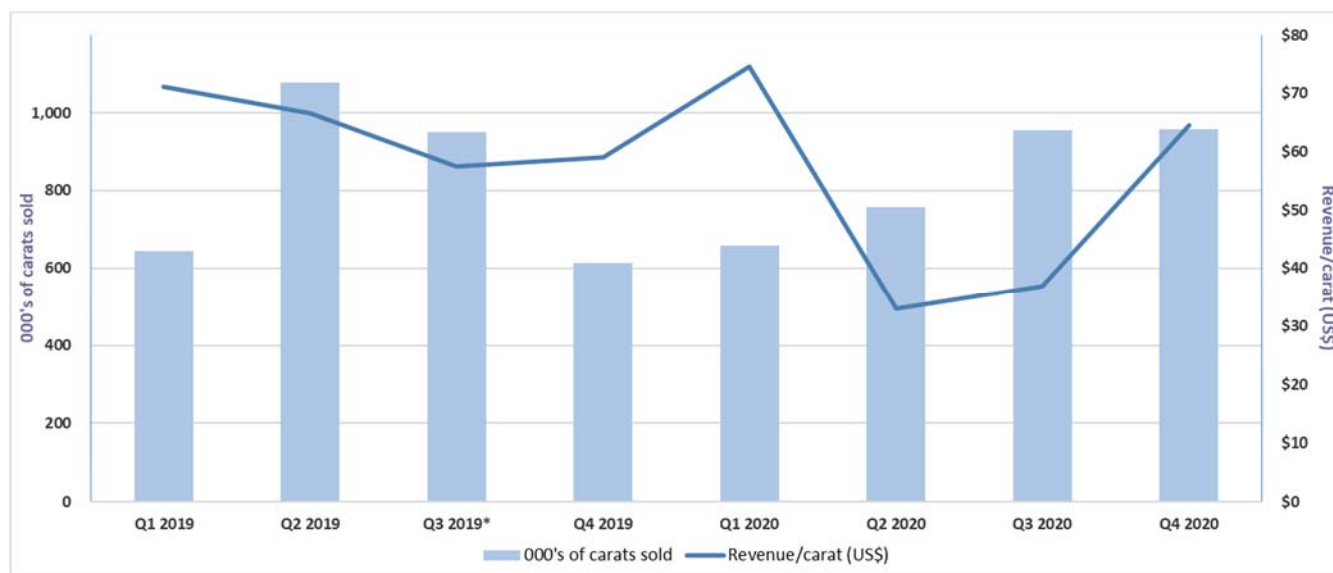
## **Diamond Sales**

The Company undertook two sales during the first quarter of 2020 in Antwerp, Belgium, thereafter, due to COVID-19 the Company had to suspend its normal sales in Antwerp. In June 2020, in response to the COVID-19 market closures, the Company entered into an agreement to sell up to US\$50 million of diamonds to Dunebridge Worldwide Ltd. (Refer to note 16 of the financial statements).

The first sale to Dunebridge occurred in June 2020, with three further sales completed in the three-month period ended September 30, 2020. During the third and fourth quarters of 2020, the Company recommenced its normal sales in Antwerp, Belgium and undertook a total of three sales. The remaining revenue was derived from sales of fancies and specials to De Beers and a small number of direct targeted sales to diamond manufacturers throughout the year.

The average realized value per carat for all sales held for the year ended December 31, 2020 was US\$51 per carat. The average realized value per carat for all sales held for the year ended December 31, 2019 was US\$63 per carat. No diamonds larger than 10.8 carats were sold to Dunebridge or in Antwerp, Belgium in the second and third quarters of 2020.

The following chart summarizes the sales for the trailing eight quarters:



\*Although the final sale in this quarter closed on September 27, 2019, the sale of 159,000 carats was recorded in October for financial reporting purposes. The amount of revenue recognized in October for the 159,000 carats was approximately US\$13.0 million or \$17.1 million.

The following table summarizes the results of sales in 2020:

	000's of carats sold	Gross proceeds (US\$ 000's)	Revenue/carat (US\$)
Q1	659	\$ 49,220	\$ 75
Q2	757	\$ 25,003	\$ 33
Q3	956	\$ 35,309	\$ 37
Q4	957	\$ 61,746	\$ 65
<b>Total</b>	<b>3,329</b>	<b>\$ 171,278</b>	<b>\$ 51</b>

The following table summarizes the results for sales in 2019:

	000's of carats sold	Gross proceeds (US\$ 000's)	Revenue/carat (US\$)
Q1	644	\$ 45,810	\$ 71
Q2	1,077	\$ 71,712	\$ 67
Q3 <sup>(1)</sup>	950	\$ 54,559	\$ 57
Q4	613	\$ 36,165	\$ 59
<b>Total</b>	<b>3,284</b>	<b>\$ 208,246</b>	<b>\$ 63</b>

Note: Sales made directly to De Beers are attributed to the closest sale.

(1) Although 950,000 carats were successfully sold, for financial reporting purposes only 791,000 carats could be recognized as sales proceeds in the quarter. The remaining 159,000 carats were recognized in Q4 2019. The amount of revenue recognized for the 159,000 carats was approximately US\$13.0 million or \$17.1 million.

The transaction with Dunebridge 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 the diamonds realized by Dunebridge upon Dunebridge's future sale of the diamonds to third parties.

After four successful years of sales, the Gahcho Kué diamonds are firmly established in the rough diamond market. The Gahcho Kué orebodies and product profiles are complex, producing a broad range of white commercial goods together with a consistent supply of exceptional, high value, gem quality diamonds as well as large volumes of small and brown diamonds. The Gahcho Kué product also exhibits varying degrees of fluorescence for which the Company has attracted specialist customers who are developing strategies to market this characteristic.

The Company's diamonds have established a strong market and customer base. With the exception of some industrial, non-gem quality diamonds, the majority of the Company's diamonds are sold into market segments that cut and polish the rough, with resultant polished destined for the major diamond jewellery markets of the US, India and China. Having transitioned from an explorer and mine developer into a diamond marketer, the Company is in early-stage development of a diamond marketing brand. Although somewhat delayed by the COVID-19 pandemic, the brand will promote the unique attributes of our diamonds and support demand through their distribution channels, with potential to reach the consumer level.

Given the complexities of the Gahcho Kué rough diamond profile and the nature of the Joint Venture's production splitting process, the mix of diamond categories may differ from sale to sale. Each sale's results can and do vary.

## **2021 Production Outlook**

The rapid spread of COVID-19 around the globe, and accompanying restrictions on mobility, posed a potential risk and disruption to mine operations. The Company, along with De Beers Canada Inc, in consultation with the Government of the Northwest Territories, have taken numerous precautions to ensure the safest working environment possible for all employees and contractors across all working sites and offices. In addition, work from home policies, where applicable, have been implemented. We have halted all long-term, non-core capital and exploration projects to reduce foot traffic and travel to and from site. We have also changed our crew rotations to further reduce frequency of travel. Furthermore, we continue to follow public health guidelines for COVID-19, such as physical distancing protocols to the best of our abilities. Despite all these measures, positive COVID-19 cases have been detected at the GK Mine, and interruptions to operations have occurred. At present, the uncertainty and fluid nature of the COVID-19 pandemic has caused the Company to delay the release of any guidance on the production outlook. This delay will allow the Company to advance a complete analysis of the potential impacts to the 2021 production plan.

## **Diamond Outlook**

The rough diamond market opened the 2020 year with optimistic sentiment and positive price growth. However, the rapid global spread of COVID-19 swiftly reversed that momentum, coincident with the surge in volatility in global economies and capital markets. While COVID-19 is still very much impacting business and daily life, the diamond industry has found ways to adapt and move forward.

The sweeping global public health measures, travel restrictions and resultant economic turmoil of the COVID-19 pandemic impacted the physical and financial flows of the global diamond value chain. Rough diamond production, rough diamond sales, polished diamond manufacturing, jewellery manufacturing and retail sales of diamond jewellery were all severely impacted in the early months of the pandemic.

In January, China's swift implementation of social distancing and self-isolation measures effectively annulled Chinese New Year jewellery sales and Chinese polished diamond manufacturing capacity closed. These events created great uncertainty through the diamond industry as Chinese orders and associated liquidity evaporated overnight.

After the global lockdown started in mid-March, the rough diamond market was at a virtual standstill for over three months. Some rough diamond producers conducted a small number of heavily discounted sales during the second quarter in Antwerp, Belgium. Market reports indicate some of these sales achieved prices on a like-for-like basis as much as 30% below a pre-COVID baseline.



2020 production guidance from the major diamond producers was revised down. Several smaller producers severely curtailed production or put their mines on care and maintenance. Customers contracted to purchase from the majors were offered the flexibility to defer their purchases until later in the year. Most independent producers that could afford to, held stock and or opted to temporarily halt production until market conditions and demand levels improved.

A number of small to medium-size producers held sales in Antwerp in June which provided a snapshot of COVID's impact on rough market prices. While some specific product segments saw small price improvements, overall rough market prices remained depressed through the European summer.

The industry was hopeful of increased demand once rough buyers returned after the summer break and companies sought to fill orders for the approaching holiday season sales. International travel restrictions and physical distancing controls remained in place and, despite alternative viewing locations being tested, access to rough diamonds was limited.

Major producers offered measured sales volumes and revised prices downwards in August and September, which was well received by the market. Furthermore, buyers continued to be offered purchasing flexibility through buybacks, deferrals and rejections. A number of sales were held in Antwerp in late August and September and producers reported healthy demand and some areas of price recovery. On October 30, 2020, the Company held a sale in Antwerp, Belgium and realized its largest open market sale to date of \$45.7 million (US\$34.3 million) resulting in an average realized value of \$81 per carat (US\$61 per carat).

After a closure of several months, and a period of cautious re-opening, polishing activity in India, the world's largest manufacturing hub, slowly resumed. The country's high incidence of COVID-19 cases and the measures necessary to mitigate the virus' spread has prevented a complete re-opening of capacity. India's voluntary rough import ban through June and July also restricted the volume of rough entering the country. At the beginning of the shutdown, polishing factories were believed to have approximately two months of rough inventory. These goods have now largely been manufactured and lighter inventory levels are helping to balance the diamond pipeline. The healthy year-end holiday retail season continued to pull goods through the pipeline and should continue to stimulate demand for rough into the first quarter of 2021.

Polished prices rallied in the third and fourth quarters on the back of strong demand. Prices in many categories are now close to and in some cases above pre-COVID levels. Product shortages have been reported in a number of popular commercial segments. Much of the US demand is focused on cheaper polished for lower price-point jewellery distributed through online platforms and retailers are reportedly seeing value in fluorescent goods.

The inventory de-stocking and improvement in polished prices has supported price growth in rough diamonds, with prices for many categories ending the year at prices at or above pre-COVID levels.

Consumer demand for diamonds is showing encouraging signs despite the pandemic. While retailers' revenues for 2020 were down year on year, larger retailers in China and the US are reporting healthy levels of in-store traffic and impressive increases in online sales. The bridal and commitment segments are reported to be resilient, with polished product shortages reported in a number of commercial categories.

Consumer confidence in the US was challenged during 2020 due to high levels of COVID-19 cases, political uncertainty heading into and during the 2020 election process, and social unrest. Despite these macro factors, 2020's extended retail holiday season was reportedly solid, particularly for online sales. Major retailer Signet reported strong sales results, bolstered by its investment in enhanced digital customer experiences and fulfilment capabilities.

Mainland China exhibited a clear recovery in spending compared with the first half of the year. Major Hong Kong-based jeweller Chow Tai Fook reported a robust year-on-year sales increase for the last three months of 2020 driven by its sales in mainland China. Tiffany, now officially part of French luxury house LVMH, also reported record net positive sales worldwide for the holiday period.

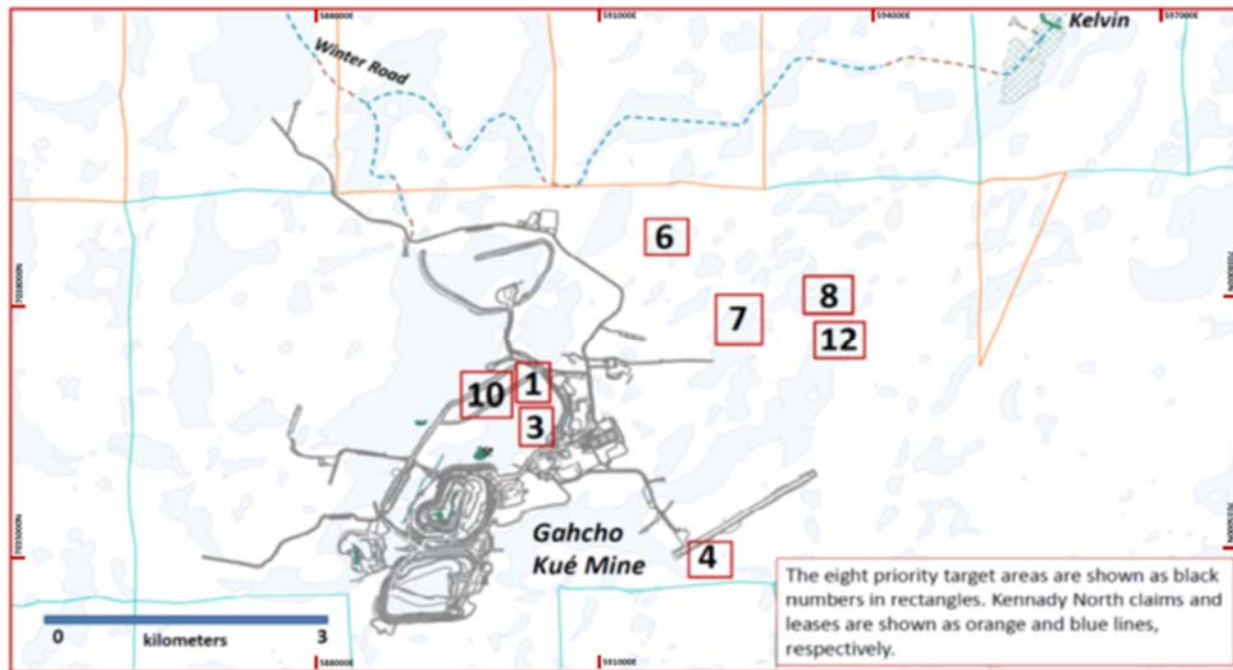
The Company maintains a positive long-term outlook for its Gahcho Kué diamonds. Supply of rough natural diamonds in 2021 is estimated to be down 20% year-on-year and is forecast to remain low. The Argyle diamond mine has now closed, and the major producers have stated their commitment to responsible inventory management. With consumer demand for natural diamonds enduring through the pandemic, the industry’s supply-demand equation, which for many years has struggled to find equilibrium, appears more in balance moving into 2021.

**Gahcho Kué Capital Program**

During the year ended December 31, 2020, stay in business capital items included process plant upgrades, generator upgrades and repairs, and investments in other general infrastructure. All capital additions in the period are considered sustaining capital expenditure, and were largely on budget. Stay in business capital does not include capital waste stripping.

**GAHCHO KUÉ EXPLORATION**

The Gahcho Kué Joint Venture with De Beers Canada covers 5,216 hectares of mining leases that includes the Gahcho Kué Mine. Exploration within the GKJV focuses on near-mine and brownfields discoveries that can extend the life of the mine. Exploration in early 2020 included a winter program of geophysical exploration that prioritized 13 targets, of which eight were selected for drill-testing. These are shown on the map below. Only two targets were tested as the program was shortened due to the COVID-19 pandemic. Two drillholes were completed each on targets 8 and 12 for a program total of 549 meters with no kimberlite encountered.



Data for the remaining targets were subsequently reviewed and targets 1, 3, and 10 were prioritized for a second drill program. Drilling commenced in late 2020 with 618 meters of the 1,176m program completed as at the end of the year. Target 10 is the Curie kimberlite, which is a small kimberlite blow located northwest of Tuzo. Two drillholes were completed at Curie with kimberlite intersects in both drillholes. The results suggest that Curie is a kimberlite splay off of the Dunn Dyke, which trends northeast-southwest and is located to the northwest of Tuzo. Details of the kimberlite intersects are summarized in the table below.

**Gahcho Kué Joint Venture 2020 Drilling Results for Target 10 (Curie Kimberlite)**

Drill Hole	Target	Azimuth	Inclination	Kimberlite Intercepts (m)			End of Hole (m)
				From	To	Intercept*	
MPV-20-534C	10 (Curie)	120	-45	116.10	151.10	<b>35.00</b>	201.00
MPV-20-535C	10 (Curie)	180	-80	77.60	173.90	<b>96.30**</b>	186.00

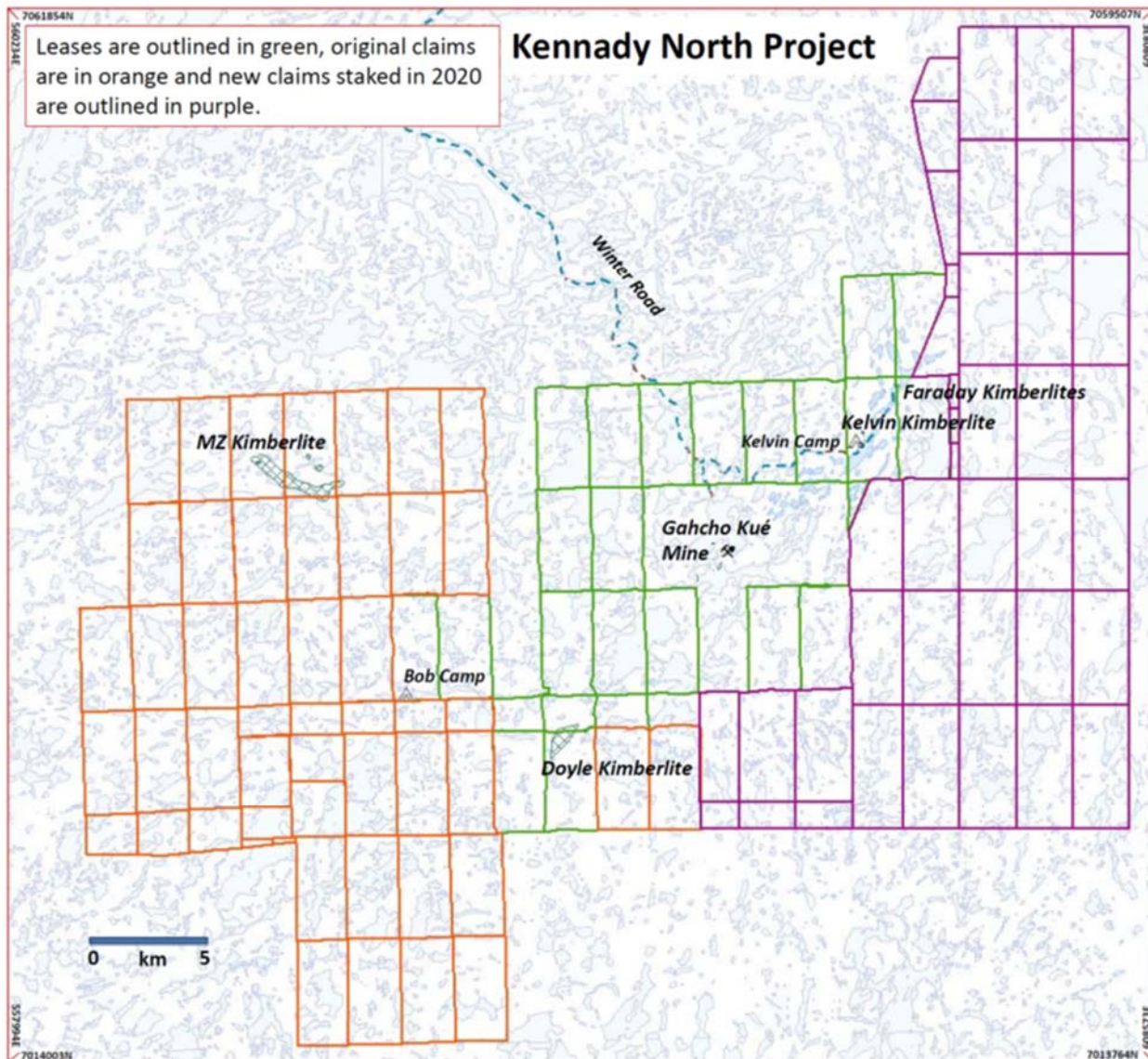
\*Intercepts not true widths. \*\* Includes zones of clay-altered or sandy kimberlite along faults and/or fractures.

The new drilling at Curie has provided some further volume and shape constraints that are presently under review by the Joint Venture. The remainder of the drilling program will focus on Targets 3 and 1 with expected completion in the first half of 2021.

In late 2020, two focused mining samples were collected from the Tuzo kimberlite with a combined weight of approximately 87,000 tonnes. The two samples will be treated separately through the Gahcho Kué plant, and the recovered diamonds will be valued independently with results expected in Q2 of 2021.

**KENNADY NORTH PROJECT EXPLORATION**

The Kennady North Project includes 22 federal leases and 97 claims covering an area of 106,202 hectares that surround the Gahcho Kué Mine on all sides. Staking conducted in April 2020 over ground east of the property increased the project area by 60%. Kennady North has five known kimberlites; Kelvin, Faraday 2, Faraday 1-3, MZ, and Doyle. Significant diamond sampling and drilling programs between 2014 and 2018, resulted in the estimation of resources for the Kelvin and Faraday bodies. The map below shows the location of the claims, leases, and kimberlites relative to the Gahcho Kué Mine.



Winter geotechnical drilling at Kennady North was terminated early due to the COVID-19 pandemic, with only one drillhole completed through the southeast end of Kelvin. Downhole physical data collected along the length of the 200m drillhole has been used to advance the resource model of the Kelvin kimberlite. Additional data collection included bathymetry surveys over several of the smaller lakes near the kimberlites. An exploration OhmMapper resistivity survey was also completed over a combined indicator-geophysical target located 1.5 kilometers to the east and up-ice of Faraday 2. Results of the survey discount the potential for kimberlite, and so further exploration up-ice (east) of Faraday 2 will be conducted in 2021.

Strategic till sampling was also conducted down-ice of Faraday 2. Indicator minerals recovered from these samples will be examined in-house to assess their morphology relative to transport distance from Faraday 2. The morphology interpretations will be used to prioritize new areas for a summer exploration till sampling program.

In January of 2020, the Company engaged Hayward CSR Strategies Inc. (HSCR; Yellowknife, NT) to aid in advancing the Kennady North assets. Dr. April Hayward, Vice President Kennady North Project Sustainable Development, oversaw a baseline data collection and community engagement program in 2020. The 2020 baseline data collection program focused on obtaining hydrological and fisheries connectivity information throughout the Kennady North watershed. These data will be used in combination with previously collected baseline data for mine planning,

permitting, and community engagement activities. Final reports for the 2020 baseline data collection programs were completed in late 2020, and the existing baseline data were used to develop a draft conceptual water management plan for the project in collaboration with the Gahcho Kué Mine. The conceptual water management plan will be finalized in early 2021.

The Kennedy assets include both an Indicated Resource for the Kelvin kimberlite and Inferred Resources for the Faraday kimberlites. Geological model domains for the Kelvin, Faraday 2 and Faraday 1-3 kimberlites were adopted as the resource domains for the estimation of Mineral Resources. The volumes of these domains were combined with estimates of bulk density to derive tonnage estimates. Bulk sampling programs using large diameter RC drilling were conducted to obtain grade and value information. Microdiamond data from drill core were used to forecast grades for the different kimberlite lithologies. Details of the modeling are available in NI 43-101 Compliant Technical Reports (filed in 2016 and 2017 under Kennedy Diamonds Inc.) and the NI43-101 Compliant Technical Report filed April 11, 2019 under Mountain Province Diamonds. All reports are available at [www.sedar.com](http://www.sedar.com). Details for the estimated resources are provided in the table below.

#### Mineral Resource Estimates for the Kelvin and Faraday Kimberlites (as of February 2019 as referenced in the April 11, 2019 NI43-101 Compliant Technical Report)

Resource	Classification	Tonnes (Mt)	Carats (Mct)	Grade (cpt)	Value (US\$/ct)
Kelvin	Indicated	8.50	13.62	1.60	\$63
Faraday 2	Inferred	2.07	5.45	2.63	\$140
Faraday 1-3	Inferred	1.87	1.90	1.04	\$75

- (1) Mineral Resources are reported at a bottom cut-off of 1.0mm. Incidental diamonds are not incorporated into grade calculations.  
(2) Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability.

## RESULTS OF OPERATIONS

The Company, as discussed above, held eight diamond sales during the year ended December 31, 2020.

## SELECTED ANNUAL INFORMATION

Expressed in thousands of Canadian dollars	December 31	December 31	December 31
	2020	2019	2018
	\$	\$	\$
Sales	226,993	276,334	310,969
(Loss) earnings from mine operations	(1,485)	24,843	81,031
Impairment loss on property, plant and equipment	(217,366)	(115,753)	-
Operating (loss) income	(235,811)	(112,852)	58,388
Net loss for the year	(263,429)	(128,758)	(18,934)
Basic and diluted (loss) earnings per share	(1.25)	(0.61)	(0.10)
Cash flow provided by operating activities	51,748	79,359	135,903
Cash flow provided by (used in) investing activities	(53,686)	(27,574)	(79,673)
Cash flow provided by (used in) financing activities	2,009	(47,479)	(68,137)
<b>Balance Sheet</b>			
Total assets	595,329	822,695	979,877
Total non-current financial liabilities	445,899	435,974	466,240
Total cash dividends declared per common share	-	-	0.04

In the year ended December 31, 2020, diamond sales related to 3,329,000 carats sold for \$226,993 (US\$171,278), compared to 3,284,000 carats sold for \$276,334 (US\$208,246) and to 3,253,000 carats sold for \$310,969 (US\$240,010) for the same periods in 2019 and 2018, respectively. Given the onset of the COVID-19 pandemic

occurred in early 2020, the decrease in realized diamond prices in the Q2 and Q3 2020 period resulted in a loss from mine operations and a higher operating loss compared to 2019. Given the decrease in realized diamond prices, earnings from mine operations and operating income were lower in 2019, compared to 2018. Net (loss) income, is also affected by unrealized foreign exchange gains (losses) from period to period on US\$ denominated debt. The Company has reported positive cash flows from operating activities in 2020, 2019 and 2018. 2020 operating cash flows were still positive though down significantly from prior years due to lower realized prices caused by the COVID-19 pandemic. Cash flows from investing activities mainly represent the capital expenditure and development costs spent on the GK Mine, which were all largely in line with budgeted expectations. Cash flows used in financing activities consist of interest charges, and the Dunebridge RCF. The slight positive cash flows provided by financing activities in 2020, is as a direct result of the US\$25 million drawdown of the Dunebridge RCF. Overall assets have decreased, as expected, during 2020 and 2019 as significant property, plant and equipment pools have been depreciated and depleted, and impairment losses on property, plant and equipment have been recorded, while the stay in business capital requirements have reduced.

In the year ended December 31, 2018, the Company declared and paid its only dividend of \$0.04 per common share totaling \$8,400. In 2020 and 2019, the Company did not pay a dividend.

## **SUMMARY OF FULL YEAR 2020 FINANCIAL RESULTS**

*Year ended December 31, 2020 compared to the year ended December 31, 2019, expressed in thousands of Canadian dollars.*

For the year ended December 31, 2020, the Company recorded a net loss of \$263,429 or \$1.25 loss per share compared to \$128,758 net loss or \$0.61 loss per share for the same period in 2019. A significant difference was a loss from mine operations of \$1,485 in the year ended December 31, 2020, compared to earnings from mine operations of \$24,843 for the same period in 2019. The main reason for the significantly higher net loss for the year ended December 31, 2020, compared to the same period in 2019, was the higher impairment loss on property, plant and equipment for \$217,366, compared to \$115,753 in 2019.

### **(Loss) earnings from mine operations**

Loss from mine operations for the year ended December 31, 2020 were \$1,485, compared to earnings from mine operations of \$24,843 for the same period in 2019. For the year ended December 31, 2020, diamond sales related to 3,329,000 carats were \$226,993 (US\$171,278), or approximately \$68 per carat sold, compared to 3,284,000 carats for \$276,334 (US\$208,246), or approximately \$84 per carat sold, for the same period in 2019. A significant amount of these sales were to Dunebridge in 2020, (Refer to note 16 of the financial statements). The significantly lower prices realized compared to 2019 were affected by the overall sentiment and demand and the rough diamond market as a result of the COVID-19 pandemic, primarily from March to September 2020, with a significant recovery observed in the final quarter.

Production costs (net of capitalized stripping costs) related to diamonds sold for the year ended December 31, 2020 were \$153,679; depreciation and depletion on the GK Mine commissioned assets related to diamonds sold for the year ended December 31, 2020 were \$63,711; and the cost of acquired diamonds for the year ended December 31, 2020 was \$11,088, which had been previously paid to De Beers when winning the periodic fancies and specials bids. The total production cost per carat was approximately \$69 per carat sold. Resultant loss from mine operations was \$1,485. Production costs (net of capitalized stripping costs) related to diamonds sold for the year ended December 31, 2019 were \$152,585; depreciation and depletion on the GK Mine commissioned assets related to diamonds sold for the year ended December 31, 2019 were \$82,825; and the cost of acquired diamonds for the year ended December 31, 2019 was \$16,081, which had been previously paid to De Beers when winning the periodic fancies and specials bids. The total production cost per carat was approximately \$77 per carat sold. Resultant earnings from mine operations were \$24,843. The decrease in production costs for the year ended December 31, 2020, over the same period in 2019, is mainly due to the lower depreciation and depletion on the GK mine commissioned assets, as an impairment charge was taken at December 31, 2019, hence resulting in a lower net book value being

depreciated in 2020, hence a lower depreciation and depletion amount per carat sold. The production costs related to diamonds sold were consistent from 2020 compared to 2019.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses for the year ended December 31, 2020 were \$13,153 compared to \$13,058 for the same period in 2019. The slight increase in overall selling, general and administrative costs can mainly be attributed to an increase in professional fees offset by a reduction in selling and marketing expenses. The professional fees increase can be attributed to the completion of technical reports for NI43-101 purposes, additional diamond valuation engagements, and significantly higher legal fees and professional fees related to the Dunebridge sales agreement, and the revolving credit facility amendments and waivers. The reduction of selling and marketing expenses can be attributed to the pause of the formal sales process in Antwerp from March to August 2020, before resuming again in September. The decrease in consulting fees and payroll is primarily attributed to eliminated or significantly reduced bonuses for management and staff. The significant expenses included in these amounts for the year ended December 31, 2020 were \$5,259 relating to selling and marketing, \$1,946 related to consulting fees and payroll, \$2,588 related to professional fees, and \$983 relating to share-based payment expense. The significant expenses included in these amounts for the year ended December 31, 2019 were \$6,219 relating to selling and marketing, \$2,730 related to consulting fees and payroll, \$1,032 related to professional fees, and \$789 relating to share-based payment expense.

### **Exploration and evaluation expenses**

Exploration and evaluation expenses for the year ended December 31, 2020, were \$3,807, compared to \$8,884 for the same period in 2019. Exploration and evaluation expenses have decreased for the year ended December 31, 2020 compared to the same period in 2019 as targeted exploration was curtailed in order to conserve cash in the near-term due to the COVID-19 situation. Of the \$3,807 total exploration and evaluation expenses incurred in the year ended December 31, 2020, \$1,076 related to the Company's 49% share of the exploration and evaluation expenses on the GK Mine, while the remaining \$2,731 related to those spent on the KNP. Of the \$8,884 total exploration and evaluation expenses incurred in the year ended December 31, 2019, \$4,754 related to the Company's 49% share of the exploration and evaluation expenses on the GK Mine, while the remaining \$4,130 related to those spent on the KNP.

### **Net finance expenses**

Net finance expenses for the year ended December 31, 2020 were \$39,997 compared to \$38,637 for the same period in 2019. Included in these amounts for the year ended December 31, 2020 were \$39,115 relating to finance costs, \$1,052 relating to accretion expense on decommissioning liability and \$170 relating to interest income. Included in these amounts for the year ended December 2019 were \$38,054 relating to finance costs, \$1,104 relating to accretion expense on decommissioning liability and \$521 relating to interest income. Finance costs have increased for the year ended December 31, 2020 compared to 2019 mainly due the additional interest expense incurred on the US\$25 million drawdown from the Dunebridge RCF and the previous RCF during the year. The previous RCF was undrawn in 2019. Included in the reassignment of the US\$25 million RCF to Dunebridge at September 30, 2020, a 1% upfront financing fee was incurred. All other finance expenses in 2020 were recurring interest expenses and other financing costs on the secured notes payable and the Dunebridge RCF. All finance expenses in 2019 were recurring interest expenses and other financing costs on the secured notes payable. The decrease in accretion expense on decommissioning liability is due to a change in estimates and discount rates over the decommissioning liability balance. Interest income in 2020 significantly decreased, mainly due to a lower average cash balance held throughout the year and lower interest rates, due to the COVID-19 pandemic.

### **Foreign exchange gains**

Foreign exchange gains for the year ended December 31, 2020 were \$12,252 compared to \$20,764 for the same period in 2019. The foreign exchange gains for the year ended December 31, 2020 was a result of the Canadian dollar strengthening relative to the U.S. dollar and the translation of the secured notes payable and the Dunebridge RCF,

net of U.S. dollar cash balances, to Canadian dollar at the spot rate at the year end. The majority of the foreign exchange gains for the year ended December 31, 2020 relates to the unrealized gains associated with the translation of the U.S. dollar based secured notes payable and the Dunebridge RCF, which is not closely tied to operational metrics. At December 31, 2020, the spot exchange rate was \$1.2725/US\$1 compared to \$1.2978/US\$1 at December 31, 2019. At December 31, 2019, the spot exchange rate was \$1.2978/US\$1 compared to \$1.3624/US\$1 at December 31, 2018. The foreign exchange gains for the year ended December 31, 2019 was a result of the Canadian dollar strengthening relative to the U.S. dollar and the translation of the secured notes payable, net of U.S. dollar cash balances, to Canadian dollar at the spot rate at the year end.

Quarterly financial information for the past eight quarters is shown in Table 1.

## SUMMARY OF QUARTERLY RESULTS

**Table 1 - Quarterly Financial Data**

Expressed in thousands of Canadian dollars

	December 31 2020	Three months ended		
		September 30 2020	June 30 2020	March 31 2020
<b>Earnings and Cash Flow</b>				
Number of sales	2	3	1	2
Sales	\$ 80,206	47,337	34,020	65,430
Impairment loss on property, plant and equipment	\$ (217,366)	-	-	-
Operating (loss) income	\$ (198,643)	(5,712)	(38,958)	7,502
Net loss for the period	\$ (189,166)	(6,532)	(26,762)	(40,969)
Basic and diluted loss per share	\$ (0.90)	(0.03)	(0.13)	(0.19)
Adjusted EBITDA*	\$ 37,002	15,300	(23,894)	22,825
Cash flow provided by (used in) operating activities	\$ 51,396	21,117	(21,941)	1,176
Cash flow provided by (used in) investing activities	\$ (22,302)	(15,766)	(10,452)	(5,166)
Cash flow provided by (used in) financing activities	\$ (16,531)	1,427	17,462	(349)
<b>Balance Sheet</b>				
Total assets	\$ 595,329	793,919	795,789	842,332

\*Adjusted EBITDA is not defined under IFRS and therefore may not be comparable to similar measures presented by other issuers; refer to the Non-IFRS Measures section.

	December 31 2019	Three months ended		
		September 30 2019	June 30 2019	March 31 2019
<b>Earnings and Cash Flow</b>				
Number of sales	2	3	3	2
Sales	\$ 65,032	54,832	95,774	60,696
Impairment loss on property, plant and equipment	\$ (115,753)	-	-	-
Operating (loss) income	\$ (118,104)	(11,149)	12,762	3,639
Net (loss) income for the period	\$ (115,725)	(25,785)	10,255	2,497
Basic and diluted (loss) earnings per share	\$ (0.55)	(0.12)	0.05	0.01
Adjusted EBITDA*	\$ 17,648	10,583	39,096	19,728
Cash flow provided by (used in) operating activities	\$ 28,307	13,858	46,079	(8,880)
Cash flow provided by (used in) investing activities	\$ (5,327)	(2,012)	(9,915)	(10,320)
Cash flow provided by (used in) financing activities	\$ (16,388)	(13,839)	(17,019)	(233)
<b>Balance Sheet</b>				
Total assets	\$ 822,695	953,325	973,606	993,390

\*Adjusted EBITDA is not defined under IFRS and therefore may not be comparable to similar measures presented by other issuers; refer to the Non-IFRS Measures section.



The Company typically holds nine or ten sales per year in Antwerp, Belgium, and had typically alternated between two and three sales per quarter since commercial production. The COVID-19 pandemic caused a significant postponement and altering of the regular sales schedule in 2020. During the three months ended December 31, 2020, the Company held two formal sales in Antwerp, Belgium including, on October 30, 2020, its largest open market sale to date of \$45.7 million (US\$34.3 million) resulting in an average realized value of \$81 per carat (US\$61 per carat). Before taking into account the effects of the impairment loss on property plant and equipment in the three months ended December 31, 2020, the operating income was \$18,723.

During the three months ended September 30, 2020, the Company held one formal sale in Antwerp, Belgium, where the lingering effects of COVID-19 continued to put pressure on the diamond industry as a whole.

During the three months ended June 30, 2020, the Company was not able to carry out its formal sales process in Antwerp, due to the COVID-19 pandemic, and as a result completed one sale to Dunebridge. Due to the pandemic, the demand for diamonds had been significantly reduced in the period, and the Company's average realized sales price was much lower than previous quarters, resulting in a loss from mine operations, and operating and net loss.

For the three months ended March 31, 2020, the Company began to experience the impact of the global pandemic of COVID-19 and in March halted the previously scheduled sale that was in progress. Despite the third sale not being complete, the Company experienced strong sales and operating income for the three months ended March 31, 2020.

Both the three months ended September 30, 2019 and December 31, 2019 resulted in an operating loss due to lower realized diamond prices. The lower prices realized in those periods were affected by three factors; the source of the diamonds from varying parts of the orebody (mostly lower value areas of Hearne and SWC Kimberlites in 2019), lower quality material processed during Q2 and Q3 2019, and the overall sentiment in the rough diamond market and associated pressure on prices of lower quality and smaller stones.

## **SUMMARY OF FOURTH QUARTER FINANCIAL RESULTS**

*Three months ended December 31, 2020 compared to the three months ended December 31, 2019, expressed in thousands of Canadian dollars.*

For the three months ended December 31, 2020, the Company recorded a net loss of \$189,166 or \$0.90 loss per share compared to a net loss of \$115,725 or \$0.55 loss per share for the same period in 2019. The significant increase in the net loss from the three months ended December 31, 2020 to the same period in 2019 can largely be attributed to the relatively higher impairment loss on property, plant and equipment. Had there not been an impairment loss, the Company would have experienced net income for the three months ended December 31, 2020. The increase in net loss was slightly offset by the increased earnings from mine operations, described below.

### **Earnings from mine operations**

Earnings from mine operations for the three months ended December 31, 2020, were \$22,823 compared to earnings from mine operations of \$3,001 for the same period in 2019. For the three months ended December 31, 2020, the Company sold 957,000 carats for proceeds of \$80,206 with diamond sales value per carat of US\$65 (2019 – 772,000 carats for \$65,032 at US\$64 per carat). The higher prices realized compared to the same period in 2019 were affected by the overall improved sentiment and demand in the rough diamond market recovering from the peak of the COVID-19 pandemic effects, and the easing of certain associated lockdowns and travel restrictions.

Production costs (net of capitalized stripping costs) related to diamonds sold for the three months ended December 31, 2020 were \$36,552; depreciation and depletion on the GK Mine commissioned assets related to diamonds sold for the three months ended December 31, 2020, was \$16,229; and the cost of acquired diamonds for the three months ended December 31, 2020 was \$4,602, which had been previously paid to De Beers when winning the periodic fancies and specials bids. Resultant earnings from mine operations for the three months ended December 31, 2020 were \$22,823. Production costs (net of capitalized stripping costs) related to diamonds sold for the three months ended December 31, 2019 were \$37,394; depreciation and depletion on the GK Mine commissioned assets

related to diamonds sold for the three months ended December 31, 2019 were \$19,500; and the cost of acquired diamonds for the three months ended December 31, 2019 were \$5,137. The production costs for the three months ended December 31, 2020, over the same period in 2019, are consistent.

### **Selling, general and administrative expenses**

Selling, general and administrative expenses for the three months ended December 31, 2020, were \$3,474 compared to \$4,236 for the same period in 2019. The main expenses included in these amounts for the three months ended December 31, 2020 were \$2,003 relating to selling and marketing, \$596 related to consulting fees and payroll, \$142 relating to share-based payment expense, and \$94 related to professional fees. The main expenses included in these amounts for the three months ended December 31, 2019 were \$1,860 relating to selling and marketing, \$1,300 related to consulting fees and payroll, \$158 relating to share-based payment expense, and \$300 related to professional fees. The decrease in overall selling, general and administrative costs can mainly be attributed to a reduction in selling and marketing expenses and consulting and payroll expenses. The reduction of selling and marketing expenses can be attributed to the pause of the formal sales process in Antwerp from March to August 2020, before resuming again in September. The decrease in consulting fees and payroll can mainly be attributed to eliminated or significantly reduced bonuses for management and staff.

### **Exploration and evaluation expenses**

Exploration and evaluation expenses for the three months ended December 31, 2020, were \$626 compared to \$1,116 for the same period in 2019. Exploration and evaluation expenses have decreased for the three months ended December 31, 2020 compared to the same periods in 2019 as targeted exploration was budgeted to be cash flow conscious. Furthermore, due to the COVID-19 pandemic exploration activities were curtailed in order to conserve cash in the near-term. Of the \$626 total exploration and evaluation expenses incurred in the three months ended December 31, 2020, \$249 is related to the Company's 49% share of the exploration and evaluation expenses on the GK Mine, while the remaining \$377 related to those spent on the KNP. Of the \$1,116 total exploration and evaluation expenses incurred in the three months ended December 31, 2019, \$886 is related to the Company's 49% share of the exploration and evaluation expenses on the GK Mine, while the remaining \$230 related to those spent on the KNP.

### **Net finance expenses**

Net finance expenses for the three months ended December 31, 2020, were \$9,297 compared to \$9,270 for the same period in 2019. Included in the amount for the three months ended December 31, 2020, were \$9,151 relating to finance costs, \$173 relating to accretion expense on decommissioning liability and \$27 relating to interest income. Included in the amount for the three months ended December 31, 2019, were \$9,191 relating to finance costs, \$254 relating to accretion expense on decommissioning liability and \$175 relating to interest income. Finance costs were slightly higher compared to the same period in 2020 as the majority relates to interest expense over the secured notes payable, as well as the additional interest expense incurred on the US\$25 million drawdown from the Dunebridge RCF during the period, which did not exist in the same period in 2019. Although there was more debt outstanding compared to the same period in 2019, that increase in interest expense has been offset by a lower foreign exchange rate on the US denominated interest expenses.

### **Foreign exchange gains**

Foreign exchange gains for the three months ended December 31, 2020 were \$18,597 compared to \$7,716 for the same period in 2019. The foreign exchange gains for the three months ended December 31, 2020 were mainly as a result of the Canadian dollar strengthening relative to the US dollar on the translation of the secured notes payable and the Dunebridge RCF, net of US dollar cash balances. The spot rate at December 31, 2020 was \$1.2725/US\$1 compared to \$1.3319/US\$1 at September 30, 2020. The foreign exchange gains for the three months ended December 31, 2019 were mainly as a result of the Canadian dollar strengthening relative to the US dollar on the

translation of the secured notes payable, net of US dollar cash balances. spot rate at December 31, 2019 was \$1.2978/US\$1 compared to \$1.3241/US\$1 at September 30, 2019.

## **INCOME AND MINING TAXES**

The Company is subject to income and mining taxes in Canada with the statutory income tax rate at 26.5%.

No deferred tax asset has been recorded in the financial statements as a result of the uncertainty associated with the ultimate realization of these tax assets.

The Company is subject to assessment by Canadian authorities, which may interpret tax legislation in a manner different from the Company. These differences may affect the final amount or the timing of the payment of taxes. When such differences arise, the Company makes provision for such items based on management's best estimate of the final outcome of these matters.

The Company's current tax expenses are associated with mining royalty taxes in the Northwest Territories. There are no other current tax expenses for income tax purposes, as there are significant losses carried forward that are available to offset current taxable income.

## **FINANCIAL POSITION AND LIQUIDITY**

The Company originally funded its share of the construction and commissioning costs of the GK Mine through a combination of equity and a project lending facility. In December 2017, the Company terminated its project lending facility through the issuance of US\$330 million in second lien secured notes payable. Concurrent with the closing of the secured notes payable, the Company entered into a US\$50 million first lien revolving credit facility with Scotiabank and Nedbank Ltd. During the second quarter of 2020, the Company drew 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 and for which a waiver was obtained as at July 3, 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 was advanced to the Company.

On September 30, 2020, the Company entered into a senior secured revolving credit facility with Dunebridge ("Dunebridge RCF") (Note 10 and 16 of the financial statements) 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, 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 also requires that no further indebtedness be entered into, and no new agreements related to the sale of Diamonds occur without prior written approval from Dunebridge.

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 Company's 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 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 (Note 10 and 16 of the financial statements) for US\$25 million to reassign its previously drawn 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, 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.

Cash flows provided by operating activities, including changes in non-cash working capital for the three months and year ended December 31, 2020, were \$51,396 and \$51,748 compared to cash flows provided of \$28,307 and \$79,359, for the same periods in 2019. The decrease in cash provided for the year ended December 31, 2020 was a result of the loss from mine operations of \$1,485 compared to earnings from mine operations of \$24,843 for the same period in 2019. The loss from mine operations can be attributed to the direct effects of the COVID-19 pandemic over the demand for diamonds, and as a result, realized diamond prices, especially in the second and third quarter of 2020. The increase in cash provided for the three months ended December 31, 2020, compared to the same period in 2019, was a result of the strong demand and recovery experienced in the resumption of the normal sales process in Antwerp, Belgium throughout the period. The demand for diamonds and the realized diamond prices achieved in the final sales of the year, exceeded the levels before the onset of the COVID-19 pandemic. This increase was also partially attributed to decreased production costs at the mine from cost saving efforts, and a decrease in discretionary exploration and evaluation expenses.

Cash flows used in investing activities for the three months and year ended December 31, 2020, were \$22,302 and \$53,686 compared to \$5,327 and \$27,574 for the same periods in 2019. For the three months and year ended December 31, 2020, the outflow for the purchase of property, plant and equipment were \$12,313 and \$38,837 compared to \$5,502 and \$28,095 for the same periods in 2019. For the three months and year ended December 31, 2020, the outflow for restricted cash was and \$10,016 and \$15,019, which relates to the decommissioning fund of the GK Mine. For the three months and year ended December 31, 2020, the amount of cash used in the acquisition of property, plant and equipment and restricted cash was offset by \$27 and \$170 of interest income, compared to \$175 and \$521 for the same period in 2019. The increase of cash used in investing activities during the three months and year ended December 31, 2020, compared to the same period in 2019, can be attributed to the increased stripping activity in the current period, the establishment of the restricted cash for the decommissioning fund, along with lower interest income as a result of reduced interest rates and lower average cash on hand.

Cash flows used in financing activities for the three months ended December 31, 2020, were \$16,531 compared to \$16,388 for the same period in 2019. Cash flows used in financing activities for the three months ended December 31, 2020, related to interest on the Dunebridge RCF, the payment of lease liabilities and the payment of the interest on the secured notes payable. Cash flows provided by financing activities for the year ended December 31, 2020, were \$2,009 compared to cash used of \$47,479 for the same period in 2019. Cash flows provided by financing activities for the year ended December 31, 2020, related to the inflow from the US\$25 million previous RCF (\$35,093 Canadian dollar equivalent) and proceeds from settlement of currency contracts, offset by interest and stand-by charges on the previous RCF, the payment of lease liabilities and the payment of the interest on the secured notes payable. Under the terms of the secured notes payable, interest payments occur semi-annually, and as such will typically result in the June and December quarters having significantly higher cash outflows under financing activities. As a result of the Dunebridge RCF of US\$25 million, the year ended December 31, 2020 resulted in a cash inflow. Cash flows from financing activities for the three months and year ended December 31, 2019 related to the repurchase of secured notes, stand-by charges on the previous RCF, the payment of lease liabilities and the payment of the interest on the secured notes payable.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

### **FINANCIAL INSTRUMENT 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. At present, COVID-19 potential future 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.

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 million 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 of the financial statements).

#### **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.

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

	<b>December 31, 2020</b>	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)
<b>Total</b>	<b>\$ (382,137)</b>	<b>\$ (360,726)</b>

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.

### **SIGNIFICANT ACCOUNTING POLICIES ADOPTED IN THE CURRENT YEAR**

Significant accounting policies adopted in the current year are disclosed in Note 3 of the financial statements.

### **SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

Significant accounting judgments, estimates and assumptions are disclosed in Note 4 of the financial statements.

### **RELATED PARTY TRANSACTIONS**

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.

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 of the financial statements). 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:

	<b>December 31, 2020</b>	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



The transactions for the years 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 years 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.

## CONTRACTUAL OBLIGATIONS

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

	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
Gahcho Kué Diamond Mine commitments	\$ 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

## NON-IFRS MEASURES

The MD&A refers to the terms "Cash costs of production per tonne of ore processed" and "Cash costs of production per carat recovered", both including and net of capitalized stripping costs and "Adjusted Earnings Before Interest, Taxes Depreciation and Amortization (Adjusted EBITDA)". Each of these is a non-IFRS performance measure and is referenced in order to provide investors with information about the measures used by management to monitor performance. These measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. They do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers.

Cash costs of production per tonne of ore processed and cash costs of production per carat recovered are used by management to analyze the actual cash costs associated with processing the ore, and for each recovered carat. Differences from production costs reported within cost of sales are attributed to the amount of production cost included in ore stockpile and rough diamond inventories.

Adjusted EBITDA is used by management to analyze the operational cash flows of the Company, as compared to the net income for accounting purposes. It is also a measure which is defined in the secured notes payable documents. Adjusted EBITDA margin is used by management to analyze the operational margin % on cash flows of the Company.

The following table provides a reconciliation of the Adjusted EBITDA and Adjusted EBITDA margin with the net income on the consolidated statements of comprehensive loss:

	Three months ended December 31, 2020	Three months ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2019
Net income (loss) for the period	\$ (189,166)	\$ (115,725)	\$ (263,429)	\$ (128,758)
<b>Add/deduct:</b>				
Non-cash depreciation and depletion	16,229	19,500	63,711	82,825
Impairment loss on property, plant and equipment	217,366	115,753	217,366	115,753
Share-based payment expense	142	158	983	789
Net finance expenses	9,297	9,270	39,997	38,637
Derivative (gains) losses	(177)	82	(127)	1,214
Current and deferred income taxes	-	(4,015)	-	(3,181)
Unrealized foreign exchange (gains) losses	(16,689)	(7,375)	(7,268)	(20,224)
<b>Adjusted earnings before interest, taxes, depreciation and depletion (Adjusted EBITDA)</b>	<b>\$ 37,002</b>	<b>\$ 17,648</b>	<b>\$ 51,233</b>	<b>\$ 87,055</b>
Sales	80,206	65,032	226,993	276,334
<b>Adjusted EBITDA margin</b>	<b>46%</b>	<b>27%</b>	<b>23%</b>	<b>32%</b>

The following table provides a reconciliation of the cash costs of production per tonne of ore processed and per carat recovered and the production costs reported within cost of sales on the consolidated statements of comprehensive loss:

(in thousands of Canadian dollars, except where otherwise noted)	Three months ended December 31, 2020	Three months ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2019
Cost of sales production costs	\$ 36,552	37,233	153,679	152,585
Timing differences due to inventory and other non-cash adjustments	\$ (4,535)	8,177	(16,430)	7,875
<b>Cash cost of production of ore processed, net of capitalized stripping</b>	<b>\$ 32,017</b>	<b>45,410</b>	<b>137,249</b>	<b>160,460</b>
<b>Cash costs of production of ore processed, including capitalized stripping</b>	<b>\$ 41,681</b>	<b>47,167</b>	<b>164,408</b>	<b>180,011</b>
Tonnes processed	kilo tonnes	361	459	1,591
Carats recovered	000's carats	745	969	3,342
<b>Cash costs of production per tonne of ore, net of capitalized stripping</b>	<b>\$ 89</b>	<b>99</b>	<b>86</b>	<b>91</b>
<b>Cash costs of production per tonne of ore, including capitalized stripping</b>	<b>\$ 116</b>	<b>103</b>	<b>103</b>	<b>103</b>
<b>Cash costs of production per carat recovered, net of capitalized stripping</b>	<b>\$ 43</b>	<b>47</b>	<b>43</b>	<b>48</b>
<b>Cash costs of production per carat recovered, including capitalized stripping</b>	<b>\$ 56</b>	<b>49</b>	<b>51</b>	<b>54</b>

## SUBSEQUENT EVENTS

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, along with 1,000,000 RSUs granted with a fair value of \$0.64 per unit.

On February 8, 2021, the Company reported that there was an outbreak of COVID-19 at the mine site which resulted in a temporary suspension of production related activities. After all of the necessary containment and quarantining efforts, as well as the maintenance of all essential activities such as water management, power generation, catering and employee care, all production related activities began ramp-up on February 28, 2021. This disruption in production related activity has resulted in approximately a month of lost mining and processing production.

## **OTHER MANAGEMENT DISCUSSION AND ANALYSIS REQUIREMENTS**

### **Risks**

Mountain Province's business of developing and operating mineral resources involves a variety of operational, financial and regulatory risks that are typical in the mining industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and investing in the Company's common shares should be considered speculative.

Mountain Province's business of developing and operating mineral properties is subject to a variety of risks and uncertainties, including, without limitation:

- risk that COVID-19 continues to spread and materially impedes operations and/or the ability of the Company to sell and distribute diamonds;
- risk of COVID-19 affecting commodity prices and demand of diamond inventory, future sales and increased market volatility;
- risk that the production from the mine will not be consistent with the Company's expectation;
- risk that production and operating costs are not within the Company's estimates;
- risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits;
- results of initial feasibility, pre-feasibility and feasibility studies, and the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; mining exploration risks, including risks related to accidents, equipment breakdowns or other unanticipated difficulties with or interruptions in production;
- the potential for delays in exploration activities or the completion of studies;
- risks related to the inherent uncertainty of exploration and cost estimates and the potential for unexpected costs and expenses;
- risks related to foreign exchange fluctuations, prices of diamond, and emergence of laboratory grown diamonds;
- risks related to challenges in the diamond market causing the sale of some or all of the diamond inventory to be sold below cost;
- risks related to commodity price fluctuations;
- risks related to failure of its joint venture partner;
- risks relating to complying with the covenants in our revolver credit facility;
- development and production risks including and particularly risks for weather conducive to the building and use of the Tibbitt to Contwoyto Winter Road;
- risks related to environmental regulation, permitting and liability;
- risks related to legal challenges to operating permits that are approved and/or issued;
- political and regulatory risks associated with mining, exploration and development;
- the ability to operate the Company's GK Mine on an economic basis;
- aboriginal rights and title;
- failure of plant, equipment, processes and transportation services to operate as anticipated;
- possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, land titles, and social and political developments, and other risks of the mining industry; and
- other risks and uncertainties related to the Company's prospects, properties and business strategy.

As well, there can be no assurance that any further funding required by the Company will become available to it, and if so, that it will be offered on reasonable terms, or that the Company will be able to secure such funding. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or Projects, or that they can be secured on competitive terms.

### **DISCLOSURE OF OUTSTANDING SHARE DATA**

The Company's common shares are traded on the Toronto Stock Exchange under the symbol MPVD.

At March 29, 2021, there were 210,490,807 shares issued, 3,540,002 stock options and 1,863,333 restricted share units outstanding. There were no warrants outstanding.

There are an unlimited number of common shares without par value authorized to be issued by the Company.

## **CONTROLS AND PROCEDURES**

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), are responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings (“NI 52-109”) based on the Internal Control – Integrated Framework (2013) developed by COSO (Committee of Sponsoring Organizations of the Treadway Commission).

Pursuant to regulations adopted by the U.S. Securities and Exchange Commission, under the Sarbanes-Oxley Act of 2002, the CEO and CFO evaluates the effectiveness of the design and operation of the Company’s disclosure controls and procedures, and internal control over financial reporting.

DC&P are designed to provide reasonable assurance that material information relating to the Corporation is made known to the CEO and CFO during the reporting period and the information required to be disclosed by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Due to the inherent limitations associated with any such controls and procedures, management recognizes that, no matter how well designed and operated, they may not prevent or detect misstatements on a timely basis.

The Corporation’s management, under the supervision of, and with the participation of, the CEO and the CFO, has evaluated its DC&P and ICFR as defined under 52-109 and rules 13a-15(e), 13a-15(f), 15d-15(e), and 15d-15(f), under the United States Securities Exchange Act and concluded that, as of December 31, 2020, they were designed effectively to provide reasonable assurance regarding required disclosures and the reliability of financial reporting and the preparation of financial statements for external purposes.

NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR that has materially affected, or is reasonably likely to materially affect, ICFR. No material changes were made to the internal controls during the year ended December 31, 2020. The Company’s CEO and CFO have each evaluated the design and effectiveness of the Company’s disclosure controls and procedures and have concluded they are operating effectively as of December 31, 2020.

## CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

*This MD&A contains certain “forward-looking statements” and “forward-looking information” under applicable Canadian and United States securities laws concerning the business, operations and financial performance and condition of Mountain Province Diamonds Inc. Forward-looking statements and forward-looking information include, but are not limited to, statements with respect to operational hazards, including possible disruption due to pandemic such as COVID-19, its impact on travel, self-isolation protocols and business and operations, estimated production and mine life of the project of Mountain Province; the realization of mineral reserve estimates; the timing and amount of estimated future production; costs of production; the future price of diamonds; the estimation of mineral reserves and resources; the ability to manage debt; capital expenditures; the ability to obtain permits for operations; liquidity; tax rates; and currency exchange rate fluctuations. Except for statements of historical fact relating to Mountain Province, certain information contained herein constitutes forward-looking statements. Forward-looking statements are frequently characterized by words such as “anticipates,” “may,” “can,” “plans,” “believes,” “estimates,” “expects,” “projects,” “targets,” “intends,” “likely,” “will,” “should,” “to be,” “potential” and other similar words, or statements that certain events or conditions “may”, “should” or “will” occur. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are based on a number of assumptions and subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Many of these assumptions are based on factors and events that are not within the control of Mountain Province and there is no assurance they will prove to be correct.*

*Factors that could cause actual results to vary materially from results anticipated by such forward-looking statements include the development of operation hazards which could arise in relation to COVID-19, including, but not limited to protocols which may be adopted to reduce the spread of COVID-19 and any impact of such protocols on Mountain Province’s business and operations, variations in ore grade or recovery rates, changes in market conditions, changes in project parameters, mine sequencing; production rates; cash flow; risks relating to the availability and timeliness of permitting and governmental approvals; supply of, and demand for, diamonds; fluctuating commodity prices and currency exchange rates, the possibility of project cost overruns or unanticipated costs and expenses, labour disputes and other risks of the mining industry, failure of plant, equipment or processes to operate as anticipated.*

*These factors are discussed in greater detail in this MD&A and in Mountain Province’s most recent Annual Information Form filed on SEDAR, which also provide additional general assumptions in connection with these statements. Mountain Province cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. Mountain Province believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A.*

*Although Mountain Province has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Mountain Province undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on forward-looking statements. Statements concerning mineral reserve and resource estimates may also be deemed to constitute forward-looking statements to the extent they involve estimates of the mineralization that will be encountered as the property is developed.*

*Further, Mountain Province may make changes to its business plans that could affect its results. The principal assets of Mountain Province are administered pursuant to a joint venture under which Mountain Province is not the operator. Mountain Province is exposed to actions taken or omissions made by the operator within its prerogative and/or determinations made by the joint venture under its terms. Such actions or omissions may impact the future*

performance of Mountain Province. Under its current note and revolving credit facilities Mountain Province is subject to certain limitations on its ability to pay dividends on common stock. The declaration of dividends is at the discretion of Mountain Province's Board of Directors, subject to the limitations under the Company's debt facilities, and will depend on Mountain Province's financial results, cash requirements, future prospects, and other factors deemed relevant by the Board.

#### ***Cautionary Note to US Investors – Information Concerning Preparation of Resource Estimates***

*This MD&A has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. Unless otherwise indicated, all resource and reserve estimates included in this MD&A have been prepared in accordance with NI 43-101 and the Canadian Institute of Mining and Metallurgy Classification System. NI 43-101 is a rule developed by the Canadian Securities Administrators which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects.*

*Canadian standards, including NI 43-101, differ significantly from the requirements of Industry Guide 7 ("Guide 7") promulgated by the United States Securities and Exchange Commission ("SEC") under the United States Securities Act of 1933, as amended, and resource and reserve information contained herein may not be comparable to similar information disclosed by US companies pursuant to Guide 7. In particular, and without limiting the generality of the foregoing, the term "resource" does not equate to the term "reserves". Under Guide 7, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SEC's disclosure standards under Industry Guide 7 do not define the terms and normally do not permit the inclusion of information concerning "measured mineral resources", "indicated mineral resources" or "inferred mineral resources" or other descriptions of the amount of mineralization in mineral deposits that do not constitute "reserves" by Guide 7 standards in documents filed with the SEC pursuant to Guide 7. US Investors should also understand that "inferred mineral resources" have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an "inferred mineral resource" will ever be upgraded to a higher category. Under Canadian rules, estimated "inferred mineral resources" may not form the basis of feasibility or pre-feasibility studies except in rare cases. Investors are cautioned not to assume that all or any part of an "inferred mineral resource" exists or is economically or legally mineable.*

*Disclosure of "contained ounces" (or "contained carats") in a resource is permitted disclosure under Canadian regulations; however, the Guide 7 normally only permits issuers to report mineralization that does not constitute "reserves" by Guide 7 standards as in place tonnage and grade without reference to unit measures. The requirements of NI 43-101 for identification of "reserves" are also not the same as those of the Guide 7, and reserves reported by the Company in compliance with NI 43-101 may not qualify as "reserves" under Guide 7 standards. Accordingly, information concerning mineral deposits set forth herein may not be comparable with information made public by companies that report in accordance with Guide 7.*