STORNOWAY DIAMOND CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2018
(Unaudited)

Stornoway Diamond Corporation
Interim Consolidated Statements of Financial Position
As at September 30, 2018 and December 31, 2017
(expressed in thousands of Canadian dollars)

	Notes	September 30, 2018	December 31, 2017
		(Unaudited)	
ASSETS			
Current			
Cash and cash equivalents	*5*	**5,872**	65,461
Short-term investments		**-**	15,578
Receivables		**3,882**	7,894
Inventories	*6*	**44,170**	50,044
Prepaid expenses and deposits		**1,112**	643
Derivative financial instruments		**1,301**	159
		56,337	139,779
Deferred transaction costs		**9,092**	8,760
Inventories	*6*	**1,678**	2,209
Property, plant and equipment	*8*	**1,081,225**	988,710
Other financial assets		**18,986**	23,288
Deferred income tax assets		**121,470**	93,554
		1,232,451	1,116,521
		1,288,788	1,256,300
LIABILITIES			
Current			
Payables and accrued liabilities		**45,095**	29,216
Current portion of long-term debt	*9*	**49,501**	35,637
Current portion of contract liabilities	*11*	**57,897**	-
Current portion of deferred revenues	*11*	**-**	23,478
Other liabilities		**172**	528
Derivative financial instruments		**676**	900
		153,341	89,759
Long-term debt	*9*	**189,632**	191,653
Convertible debentures	*10*	**79,295**	80,817
Contract liabilities	*11*	**324,044**	-
Deferred revenues	*11*	**-**	274,303
Asset retirement obligation	*13*	**19,908**	16,000
Deferred income tax liabilities		**18,873**	20,561
		631,752	583,334
		785,093	673,093
EQUITY			
Share capital		**870,537**	869,962
Contributed surplus		**46,273**	42,931
Accumulated other comprehensive income (loss)		**447**	(613)
Deficit		**(413,562)**	(329,073)
		503,695	583,207
		1,288,788	1,256,300

Contingencies *(Note 18)*

ON BEHALF OF THE BOARD:

"Ebe Scherkus", Director

"Hume Kyle", Director

Stornoway Diamond Corporation
Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the three and nine months ended September 30, 2018 and 2017

Unaudited

(expressed in thousands of Canadian dollars except for loss per share)

		For the three months ended		For the nine months ended	
	Notes	**September 30, 2018**	September 30, 2017	**September 30, 2018**	September 30, 2017
Revenues		**29,356**	49,977	**142,216**	141,019
Cost of goods sold					
Operating expenses		**30,662**	22,894	**102,851**	63,271
Royalty expenses	*16*	**490**	938	**2,193**	2,606
Depreciation	*8*	**23,682**	16,252	**68,009**	40,107
		54,834	40,084	**173,053**	105,984
Gross (loss) profit		**(25,478)**	9,893	**(30,837)**	35,035
Selling, general and administrative expenses		**4,747**	4,281	**14,690**	13,604
Exploration expenses		**789**	179	**3,488**	1,760
(Loss) income from operations		**(31,014)**	5,433	**(49,015)**	19,671
Financial expenses	*15*	**22,439**	5,410	**59,893**	4,891
Foreign exchange loss (gain)		**(1,737)**	(4,601)	**3,716**	(8,861)
Gain on sale of interests in exploration properties		**-**	-	**-**	(400)
Net (loss) income before tax		**(51,716)**	4,624	**(112,624)**	24,041
Current income tax	*12*	**24**	256	**663**	381
Deferred income tax (recovery) expenses	*12*	**(14,095)**	2,079	**(28,798)**	19,434
		(14,071)	2,335	**(28,135)**	19,815
Net (loss) income		**(37,645)**	2,289	**(84,489)**	4,226
Loss per share - Basic	*14d*	**(0.05)**	Nil	**(0.10)**	Nil
Earnings (loss) per share - Diluted	*14d*	**(0.05)**	Nil	**(0.10)**	0.01
Other comprehensive income (loss):					
Items that may be reclassified to net income:					
Net (loss) gain on change in fair value of derivative financial instruments designated as cash flow hedges	*7*	**2,298**	(509)	**1,367**	(80)
Deferred income tax recovery (expenses)	*7,12*	**(525)**	59	**(167)**	(55)
		1,773	(450)	**1,200**	(135)
Items that may not be reclassified to net income:					
Change in fair value of equity instruments designated at fair value through other comprehensive income		**(20)**	20	**(140)**	100
		1,753	(430)	**1,060**	(35)
Comprehensive (loss) income		**(35,892)**	1,859	**(83,429)**	4,191

Net and Comprehensive (loss) income are solely attributable to shareholders of Stornoway Diamond Corporation

Stornoway Diamond Corporation
Interim Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2018 and 2017
Unaudited
(expressed in thousands of Canadian dollars, except for the number of shares)

	Share capital					
	Number of shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balance at January 1, 2018	**835,263,337**	**869,962**	**42,931**	**(200)**	**(329,486)**	**583,207**
Adjustment on initial application of IFRS 9 *(Note 3)*	-	-	-	(413)	413	-
Adjusted balance at January 1, 2018	835,263,337	869,962	42,931	(613)	(329,073)	583,207
Net loss for the period	-	-	-	-	(84,489)	(84,489)
Other comprehensive income	-	-	-	1,060	-	1,060
Share issued under Employee Share Purchase Plan	1,244,877	575	(78)	-	-	497
Compensation under Employee Share Purchase Plan	-	-	167	-	-	167
Compensation under Performance Share Unit Plan	-	-	1,482	-	-	1,482
Compensation under Deferred Share Unit Plan	-	-	646	-	-	646
Compensation under Stock Option Plan	-	-	1,125	-	-	1,125
Balance at September 30, 2018	**836,508,214**	**870,537**	**46,273**	**447**	**(413,562)**	**503,695**
Balance at January 1, 2017	828,452,337	864,868	39,526	-	(214,853)	689,541
Net income for the period	-	-	-	-	4,226	4,226
Other comprehensive loss	-	-	-	(35)	-	(35)
Exercise of options	1,447,500	1,453	(433)	-	-	1,020
Compensation under Stock Option Plan	-	-	3,193	-	-	3,193
Balance at September 30, 2017	**829,899,837**	**866,321**	**42,286**	**(35)**	**(210,627)**	**697,945**

Equity is solely attributable to shareholders of Stornoway Diamond Corporation

Stornoway Diamond Corporation
Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30, 2018 and 2017
Unaudited
(expressed in thousands of Canadian dollars)

		For the three months ended		For the nine months ended	
Cash Flow Provided By (Used In)	**Notes**	**September 30, 2018**	September 30, 2017	**September 30, 2018**	September 30, 2017
Operating Activities					
Net (loss) income		**(37,645)**	2,289	**(84,489)**	4,226
Items not affecting cash					
Depreciation	*6,8*	**23,682**	16,274	**68,009**	40,174
Non-cash finance charges	*11,15*	**17,533**	2,706	**52,206**	9,208
Gain on sale of interests in exploration properties		**-**	-	**-**	(400)
Loss on disposal of assets		**-**	71	**495**	71
Deferred income tax (recovery) expenses		**(14,095)**	2,079	**(28,798)**	19,434
Foreign exchange (loss) gain		**(1,651)**	(4,644)	**3,709**	(8,749)
Gain on fair value of derivatives		**(837)**	(1,900)	**(9,161)**	(16,843)
Equity-based compensation		**581**	601	**3,155**	2,418
Revenue recognition under contract liabilities (deferred revenues in 2017)	*11*	**(7,507)**	(5,965)	**(43,033)**	(17,868)
Amortization of deferred transaction costs from Stream	*9f*	**88**	173	**382**	532
Changes in non-cash working capital					
Decrease in receivables		**1,966**	1,196	**4,012**	1,957
Decrease (increase) in prepaid expenses and deposits		**295**	110	**(469)**	(213)
Decrease (increase) in inventory		**(2,506)**	1,256	**5,202**	(4,058)
Increase in payables and accrued liabilities		**6,363**	9,638	**18,119**	23,611
		(13,733)	23,884	**(10,661)**	53,500
Investing Activities					
Property, plant and equipment	*8,17*	**(20,589)**	(29,293)	**(75,536)**	(105,155)
Mining tax credit received	*8*	**-**	-	**-**	9,756
Proceeds from sale of fixed assets to be leased back		**8,906**	1,317	**15,461**	3,202
Increase in other financial assets		**2,241**	(1,033)	**4,336**	(3,311)
Decrease in short-term investments, net		**-**	10,500	**15,578**	34,478
		(9,442)	(18,509)	**(40,161)**	(61,030)
Financing Activities					
Shares issued under Employee Share Purchase Plan	*14a*	**153**	-	**497**	-
Proceeds from long-term debt, net of issue costs		**-**	-	**-**	47,525
Deferred transaction costs		**-**	-	**-**	(247)
Options exercised		**-**	702	**-**	1,020
Repayment of debt		**(2,506)**	(3,116)	**(9,045)**	(39,357)
		(2,353)	(2,414)	**(8,548)**	8,941
Foreign exchange loss on cash and cash equivalents		**(212)**	(250)	**(219)**	(274)
Net (decrease) increase in cash and cash equivalents		**(25,740)**	2,711	**(59,589)**	1,137
Cash and cash equivalents - Beginning of Period		**31,612**	40,719	**65,461**	42,293
Cash and cash equivalents - End of Period		**5,872**	43,430	**5,872**	43,430

See supplemental schedule of non-cash investing and financing transactions (Note 17)

1. Nature of Operations

Stornoway Diamond Corporation ("Stornoway" or the "Corporation") is a diamond mining corporation existing under the *Canada Business Corporations Act* and listed on the Toronto Stock Exchange ("TSX" SWY). The Corporation's primary asset is the Renard Diamond Mine in Québec, Canada where construction commenced in July 2014. Stornoway formally declared commercial production at Renard on January 1, 2017. The head office and principal address of the Corporation is Suite 400, 1111 St.-Charles Street West, Longueuil, Quebec, J4K 5G4.

The Corporation's condensed interim consolidated financial statements include Stornoway and the following wholly-owned subsidiaries : Ashton Mining of Canada Inc. ("Ashton"), Stornoway Diamond (Canada) Inc. ("SDCI") and FCDC Sales and Marketing Inc. ("FCDC").

2. Summary of Significant Accounting Policies

a) Basis of Preparation

These condensed interim consolidated financial statements have been prepared by the Corporation in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), including International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), using the same accounting policies and methods of application as the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2017, with the exception of the accounting policies adopted during the nine months ended September 30, 2018. These condensed interim consolidated financial statements do not include all of the information and note disclosures required by IFRS for the annual consolidated financial statements and should therefore be read in conjunction with the audited consolidated financial statements of the Corporation as at and for the year ended December 31, 2017, which have been prepared in accordance with IFRS. These condensed interim consolidated financial statements were approved for release by the Board of Directors on November 14, 2018.

b) New accounting policies adopted

Financial Instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

<u>Financial Assets</u>

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Corporation classifies its financial assets in the following measurement categories:

- measured subsequently at amortized cost; and
- measured subsequently at fair value (either through other comprehensive income (loss), or through net income (loss)).

2. Summary of Significant Accounting Policies *– continued –*

b) New accounting policies adopted *– continued –*

Financial Instruments *– continued –*

Investments in equity instruments are classified at fair value through net loss, unless the Corporation makes, on an instrument-by-instrument basis, an irrevocable election to present in other comprehensive income its changes in fair value. For investments in debt instruments, the classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in net loss or other comprehensive income.

i) Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Financial assets measured at fair value

A financial asset shall be measured at fair value through net loss unless it is measured at amortised cost or at fair value through other comprehensive income.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Corporation has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income, in which case, gains and losses will never be reclassified to net loss, and no impairment may be recognized in net loss. Dividends earned from such investments are recognized in net loss, unless the dividend clearly represents a repayment of part of the cost of the investment.

iii) Impairment

The Corporation assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and through other comprehensive income (loss). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

2. Summary of Significant Accounting Policies *– continued –*

b) New accounting policies adopted *– continued –*

Financial Instruments *– continued –*

The Corporation assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. Such assessment exists if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. An external rating of investment grade is considered to indicate that a financial instrument that may be considered as having low credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Financial Liabilities

Financial liabilities are initially recorded at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial instruments are measured at amortized cost using the effective interest method.

Embedded Derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is an asset, the entire hybrid contract is measured at fair value through net loss. If a hybrid contract contains a host that is not an asset, embedded derivatives are recorded at fair value separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract. Subsequent changes in fair value are recorded in the consolidated statements of loss.

The convertible debentures issued by the Corporation are a hybrid financial instrument that can be converted into common shares of the Corporation at the option of the holder, where the number of shares to be issued does not vary but where the fair value of the consideration will change because the Corporation's functional currency is in Canadian dollars while the convertible debentures are denominated in US dollars. The hybrid financial instrument is recognized as a liability, with the initial carrying value of the convertible debentures (host) being the residual amount of the proceeds after separating the derivative component, which is recognized at fair value. Any directly attributable transaction costs are allocated to the host and derivative components in proportion to their initial carrying amounts. Subsequent to initial recognition, the host component of the hybrid financial instrument is measured at amortized cost using the effective interest method. The derivative component of the hybrid financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value are recorded in the consolidated statements of loss.

2. Summary of Significant Accounting Policies – *continued* –

b) New accounting policies adopted – *continued* –

Derivatives and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated. The Corporation designates certain derivatives as cash flow hedges, being hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions.

Derivative financial instruments designated in a hedging relationship

The Corporation documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items, including whether the hedging instrument is expected to offset changes in cash flows of hedged items and the sources of ineffectiveness. The group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 7 – Fair Value. Movements in the hedging reserve presented in accumulated other comprehensive income are shown in the consolidated statements of earnings (loss) and comprehensive income (loss). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated other comprehensive income, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in net loss within financial expenses (income).

When forward contracts are used to hedge forecast transactions, the Corporation generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within other comprehensive income. The change in the forward element of the contract that relates to the hedged item (aligned forward element) is recognized within other comprehensive income in the costs of hedging reserve. In some cases, the Corporation may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve.

When option contracts are used to hedge forecast transactions, the Corporation designates only the intrinsic value of the option contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the intrinsic value of the option contracts are recognized in the cash flow hedge reserve within other comprehensive income. The change in the time value of the option contracts that relate to the hedged item (aligned time value element), and the change in the forward element of the contract that relates to the hedged item (aligned forward element), are recognized within other comprehensive income in the costs of hedging reserve.

2. Summary of Significant Accounting Policies – *continued* –

b) New accounting policies adopted – *continued* –

Derivatives and hedging activities – *continued* –

Amounts in accumulated other comprehensive income are reclassified to net loss in the periods when the hedged item affects net loss. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging foreign currency denominated sales is recognized in net loss within revenues, along with the aligned time value element and aligned forward element, as applicable.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive income at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in net loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in accumulated other comprehensive income is immediately reclassified to net loss.

Hedge ineffectiveness is recognized in net loss within financial expenses (income).

<u>Derivative financial instruments not designated in a hedging relationship</u>

Certain derivative instruments do not qualify for hedge accounting or have not been designated in a hedging relationship. Changes in the fair value of any such derivative instrument are recognized immediately in net loss and are included in financial expenses (income).

Contract liabilities (from January 1, 2018)

Contract liabilities consist of payments received by the Corporation under the Stream (refer to note 11) in consideration for future commitments to deliver diamonds at contracted prices. As deliveries are made, the Corporation records a portion of the contract liabilities as sales, using the standalone selling price of future deliveries, as determined based on estimated selling prices prevailing at contract inception. The difference between the standalone selling price of future deliveries and the amount of the consideration being provided under the Stream is treated as a significant financing component accounted for separately from the revenue component.

Revenue recognition (from January 1, 2018)

Revenue from the sale of rough diamonds is measured at the transaction price, being the amount of consideration to which the Corporation expects to be entitled in exchange for transferring promised goods. Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Employee Share Purchase Plan transactions

The Corporation's employee share purchase plan ("ESPP") allows its officers and employees to acquire shares of the Corporation. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee. All permanent full-time employees who have been employed by the Corporation for at least three months may enroll in the ESPP.

2. Summary of Significant Accounting Policies – *continued* –

b) New accounting policies adopted – *continued* –

Employee Share Purchase Plan transactions – *continued* –

Employees may contribute up to 10% of their annual gross salary towards the purchase of shares from the Corporation. Six months after the employee contribution, the Corporation contributes an amount equal to 50% of the employee contribution, providing that the employee shares are still in the employee's account at the end of this six-month period, and that the employee remains employed by the Corporation. When the Corporation's contributions are earned, the applicable amounts of contributed surplus are transferred to share capital. Fair value is determined at the date of the employee contribution and is recognized over the period during which the Corporation's contribution is earned, and is measured as 50% of of the eligible employee contribution.

Performance Share Unit Plan

The Corporation's Performance Share Unit ("PSU") Plan allows its officers and key employees to acquire shares of the Corporation. Fair value is determined at time of grant based on the share price then effective, adjusted for market related performance conditions, and based on the number of PSU expected to vest (based on non-market performance conditions and service conditions expected to be met). Each tranche is recognized on a graded-vesting basis over the period during which PSU vests. PSU expense is adjusted for subsequent changes in management's estimate of the number of PSUs that are expected to vest. The effect of these changes is recognized in the period of the change. For each PSU that vests, the participant shall receive, on the settlement date, common shares of the Corporation to be issued from treasury. Upon settlement, the applicable amounts of contributed surplus are transferred to share capital.

Deferred Share Unit Plan

The Corporation's Deferred Share Unit ("DSU") Plan allows its directors to acquire shares of the Corporation. Fair value is determined at time of grant based on the share price then effective. Each DSU shall vest immediately. For each DSU, the participant shall receive, on the settlement date, common shares of the Corporation to be issued from treasury. Upon settlement, the applicable amounts of contributed surplus are transferred to share capital.

3. New Accounting Standards and Interpretations

New standards and interpretations adopted

<u>IFRS 9 – Financial Instruments</u>

On January 1, 2018, the Corporation adopted *IFRS 9, Financial Instruments* which replaced *IAS 39, Financial Instruments: Recognition and Measurement*, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Corporation applied IFRS 9 retrospectively with restatement of prior periods, but there were no impact on the opening balance sheet as of January 1, 2017, and on the information presented onwards, other than the changes described below.

3. New Accounting Standards and Interpretations – *continued –*

New standards and interpretations adopted – *continued –*

IFRS 9 – Financial Instruments – *continued –*

i) Assets and liabilities

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

The following table summarizes the classification and measurement changes for the Corporation's financial assets and liabilities as of January 1, 2017 and 2018:

	Category under IAS 39	**Category under IFRS 9**
Financial assets:		
Cash and cash equivalents	Loans and receivables	**Amortized cost**
Short-term investments	Loans and receivables	**Amortized cost**
Accounts receivable	Loans and receivables	**Amortized cost**
Other accounts receivable	Loans and receivables	**Amortized cost**
Other financial assets	Loans and receivables	**Amortized cost**
Investments in equity instruments (included in other financial assets	Available-for-sale	**Designated at fair value through other comprehensive income (loss)**
Financial liabilities:		
Payables and accrued liabilities	Other financial liabilities	**Amortized cost**
Long-term debt	Other financial liabilities	**Amortized cost**
Convertible debenture - Host	Other financial liabilities	**Amortized cost**
Convertible debenture - Derivative	Held-for-trading	**Fair value through net income (loss)**
Derivative financial instruments	Held-for-trading	**Fair value through net income (loss)**

The accounting for these instruments and the line item in which they are included in the consolidated statements of financial position are unaffected by the adoption of IFRS 9, and no measurement adjustments are required to the Corporation's financial assets and liabilities. However, the equity instruments that were previously classified as available-for-sale and that have been designated at fair value through other comprehensive income (loss) are no longer subject to impairment assessments and gains and losses on disposal will never be recognized in net income (loss).

i) Hedge accounting

The foreign currency forward contracts and foreign currency option contracts in place as at December 31, 2017 qualified as cash flow hedges under IFRS 9. The Corporation's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

For foreign currency forward contracts, changes in the fair value related to forward points were recognized in the statement of profit or loss prior to January 1, 2018. For foreign currency option contracts, changes in the fair value related to the forward elements and changes in time value of the option contracts were recognized in the statement of profit or loss prior to January 1, 2018.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

3. New Accounting Standards and Interpretations – *continued* –

New standards and interpretations adopted – *continued* –

IFRS 9 – Financial Instruments – *continued* –

Since adoption of IFRS 9, the Corporation recognizes changes in the fair value of foreign currency forward contracts attributable to forward points, and for foreign currency option contracts, the changes in the fair value related to the forward elements and changes in time value of the option contracts, in the costs of hedging reserve within equity. This change has been applied retrospectively for foreign currency forward contracts and for foreign currency option contracts in cash flow hedge relationships, resulting in a retrospective reclassification of a $0.4 million loss from financial expenses to the costs of hedging reserve in other comprehensive loss for the year ended December 31, 2017.

The amounts by which each financial line item is affected by the application of IFRS 9 when compared to legacy requirements is as follows for the three and nine months ended September 30, 2017. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

	For the three months ended September 30, 2017			**For the nine months ended September 30, 2017**		
	Legacy standards (pro forma)	Impacts	**IFRS 9**	Legacy standards (pro forma)	Impacts	**IFRS 9**
Foreign exchange gain	(4,312)	(289)	(4,601)	(8,572)	(289)	(8,861)
Income before tax	4,335	289	4,624	23,752	289	24,041
Net income	**2,000**	**289**	**2,289**	**3,937**	**289**	**4,226**
Earnings per share – Basic and Diluted	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**0.01**
Net gain (loss) on change in fair value	(220)	(289)	(509)	209	(289)	(80)
Comprehensive income	**1,859**	**-**	**1,859**	**4,191**	**-**	**4,191**

ii) Impairment of financial assets

The adoption of IFRS 9 had no impact on the impairment of the Corporation's financial assets.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15*, Revenue from Contracts with Customers* supersedes IAS 11*, Construction Contracts*, IAS 18*, Revenue* (hereinafter referred to as "legacy standards") and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Corporation adopted IFRS 15 using the modified retrospective method of adoption and consequently the comparative information has not been adjusted.

The Corporation's contracts with customers for the sale of diamonds generally include one performance obligation. The Corporation has concluded that revenue from sale of diamonds should be recognized at the point in time when control of the asset is transferred to the customer and selling prices are known, generally on delivery of the diamonds. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

3. New Accounting Standards and Interpretations – *continued* –

New standards and interpretations adopted – *continued* –

IFRS 15 – Revenue from Contracts with Customers – *continued* –

Under the Stream, the Corporation received advances in consideration for future commitment to deliver diamonds at contracted price. Prior to the adoption of IFRS 15, the Corporation presented these advances as deferred revenue in the consolidated statements of financial position. No interest was accrued on the long-term advances received under the previous accounting policy. The Corporation concluded that the contracted price is discounted to take into consideration a significant financing component that should be accounted for separately and as a result both revenues and financial expenses should increase. In addition, nomenclature for deferred revenue was revised to contract liabilities.

Upon adoption of IFRS 15, on January 1, 2018, the Corporation increased contract liabilities for the net accretion of financial expenses on the advances received by $83.7 million and increased related deferred tax asset and Property, Plant and Equipment by $1.3 million and $82.4 million respectively. The increase to Property, Plant and Equipment relates to $44.8 million of capitalized Stream borrowing costs up to December 31, 2016, net of a $3.3 million depreciation expense, and a $40.9 reduction to the $171.0 million impairment charge recognized on December 31, 2017, reflecting a commensurate change in the carrying amount of the Renard Mine CGU.

The amounts by which each financial line item is affected by the application of IFRS 15 when compared to legacy revenue requirements is as follows. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

			As at September 30, 2018
	Legacy standards (pro forma)	Impacts	**IFRS 15**
ASSETS			
Property, Plant and Equipment	1,002,796	78,429	1,081,225
Deferred income tax assets	115,462	6,008	121,470
Total assets	**1,204,351**	**84,437**	**1,288,788**
LIABILITIES			
Current portion of contract liabilities	23,437	34,460	**57,897**
Non-current portion of contract liabilities	261,090	62,954	**324,044**
Total liabilities	**687,679**	**97,414**	**785,093**
EQUITY			
Deficit	(400,585)	(12,977)	**(413,562)**
Total equity	**516,672**	**(12,977)**	**503,695**
Total liabilities and equity	**1,204,351**	**84,437**	**1,288,788**

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

3. New Accounting Standards and Interpretations – *continued* –

New standards and interpretations adopted – *continued* –

IFRS 15 – Revenue from Contracts with Customers – *continued* –

	For the three months ended September 30, 2018			**For the nine months ended September 30, 2018**		
	Legacy standards (pro forma)	Impacts	**IFRS 15**	Legacy standards (pro forma)	Impacts	**IFRS 15**
Revenues	24,922	4,434	29,356	112,446	29,770	142,216
Depreciations	22,186	1,496	23,682	64,088	3,921	68,009
Gross loss	**(28,416)**	**2,938**	**(25,478)**	**(56,686)**	**25,849**	**(30,837)**
Loss from operations	**(33,952)**	**2,938**	**(31,014)**	**(74,864)**	**25,849**	**(49,015)**
Financial expenses	7,946	14,493	**22,439**	16,388	43,505	**59,893**
Net loss before tax	**(40,161)**	**(11,555)**	**(51,716)**	**(94,968)**	**(17,656)**	**(112,624)**
Deferred income tax recovery	(11,033)	(3,062)	(14,095)	(24,119)	(4,679)	(28,798)
Total income tax recovery	(11,009)	(3,062)	(14,071)	(23,456)	(4,679)	(28,135)
Net loss	**(29,152)**	**(8,493)**	**(37,645)**	**(71,512)**	**(12,977)**	**(84,489)**
Loss per share - Basic and Diluted	(0.03)	(0.02)	**(0.05)**	(0.09)	(0.01)	**(0.10)**

4. Critical Accounting Estimates and Judgments

Contract liabilities

In its determination of the transaction price under the Stream, management assessed that the contract contained a significant financing component, which required making estimates, with information reasonably available to the parties at contract inception, of the quantity and the cash selling price of the promised goods to be delivered under the Stream, in relation to the consideration received and to be received as deliveries are made.

Revenue under the contract liability is recognized in reference to the original estimated stand-alone selling price. To the extent a change in timing or quantity of future deliveries under the Stream occurs, the transaction price is deemed to have changed and the Corporation remeasures the contract liability on the same basis as at contract inception. As such, revision of estimates are accounted for as a cumulative catch-up adjustment to revenue in the period in which the revision of estimates occurs.

Performance Share Unit Plan

In determining the fair value of PSU grants, management makes assessments towards relative total shareholder return, the attainment of EBITDA targets, and the achievement of personal employee objectives. In addition, in making its fair value assessments, management estimates the number of participating employees that are expected to meet the required service conditions. Compensation expense is adjusted for subsequent changes in management's estimate of the number of PSUs that are expected to vest.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

5. Cash and Cash Equivalents

	September 30, 2018	December 31, 2017
Cash	**5,872**	29,849
Cash equivalents	**-**	35,612
	5,872	65,461

6. Inventories

	September 30, 2018	December 31, 2017
Materials and supplies	**13,437**	12,360
Stockpile ore	**57**	7,480
Rough diamonds – work in progress	**18,903**	19,128
Rough diamonds – finished goods	**13,451**	13,285
	45,848	52,253
Less: non-current portion	**1,678**	2,209
Current portion	**44,170**	50,044

For the nine months ended September 30, 2018, depreciation recognized in net loss includes $1.2 million of depreciation from the movement of stockpile and rough diamond inventory. The cost of inventory that was charged to cost of goods sold is comprised primarily of mine operating expenses and depreciation of property, plant and equipment. Cost of sales for the three and nine months ended September 30, 2018 includes a write-down to bring work-in-progress and finished goods inventories to their net realizable value of $22.4 million and $44.5 million, respectively.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

7. Financial Instruments and Risk Management

a) Classification of financial instruments

The table below summarizes the carrying amount of the Corporation's financial instruments and their classification:

	September 30, 2018	December 31, 2017
Financial assets measured at amortized cost		
Cash and cash equivalents	**5,872**	65,461
Short-term investments	**-**	15,578
Receivables	**1,200**	848
Other financial assets	**18,686**	22,848
	25,758	104,735
Financial assets measured at fair value through other comprehensive income not subsequently transferred to profit or loss		
Investments in equity instruments (included in other financial assets)	**300**	440
Financial liabilities measured at amortized cost		
Payables and accrued liabilities	**45,095**	29,216
Long-term debt	**239,133**	227,290
Convertible debentures - Host	**78,580**	71,128
	362,808	327,634
Financial liabilities measured at fair value through profit or loss		
Convertible debenture – Derivative	**715**	9,689
Derivatives designated as cash flow hedges		
Foreign currency options	**290**	(414)
Forward contracts	**335**	(327)
	625	(741)

b) Fair value

The following tables present a comparison of carrying and fair values of financial instruments measured at amortized cost, for which the carrying amount is not approximately equal to the fair value:

	As at September 30, 2018		As at December 31, 2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-Term Debt				
Unsecured debt facility # 1 *(Note 9a)*	**12,886**	**13,462**	14,477	15,385
Renard Mine Road debt facility *(Note 9c)*	**51,103**	**51,269**	49,022	49,195
Senior Secured Loan *(Note 9d)*	**117,111**	**120,714**	116,300	120,714
Convertible debentures				
Host *(Note 10)*	**78,580**	**79,991**	71,128	72,813

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

7. Financial Instruments and Risk Management *– continued –*

b) Fair value *– continued –*

The financial instruments recorded at fair value are classified in the fair value hierarchy as follows:

		As at September 30, 2018		As at December 31, 2017	
	Level	**Financial assets**	**Financial liabilities**	Financial assets	Financial liabilities
Equity instruments designated at fair value through other comprehensive income					
Equity instruments	*Level 1*	**300**	**-**	440	-
Derivative financial instruments designated as hedges					
Foreign currency options	*Level 2*	**735**	**(445)**	159	(573)
Forward contracts	*Level 2*	**566**	**(231)**	-	(327)
Convertible debentures					
Derivative *(Note 10)*	*Level 2*	**-**	**715**	-	9,689

c) Financial risk management

The Corporation is exposed to a variety of financial risks by virtue of its activities: market risk (e.g. diamond price, foreign exchange, and interest rate), credit risk and liquidity risk. The Corporation's objective with respect to financial risk management is to manage risks that can be managed within acceptable tolerance levels in order to reduce potential adverse effects on the Corporation's ability to develop and operate the Renard Diamond Mine and to have sufficient financial resources to meet its financial obligations, including repayment of debt and convertible debentures as they become due. The Corporation does not hedge diamond prices. Management is responsible for establishing controls and procedures to ensure that financial risks are managed within acceptable levels.

The Corporation uses derivative financial instruments solely to hedge certain financial exposures. Derivatives may not be used for speculative purposes.

Market risk

Foreign exchange risk

The Corporation has designated the derivative contracts in the table below as a cash flow hedge of highly probable future revenue. The Corporation uses derivative financial instruments only for risk management purposes, not for generating trading profits. As such, any change in cash flows associated with derivative instruments is expected to be offset by changes in foreign currency cash flows arising from the recognition of highly probable future US dollar denominated revenues. The effects of the foreign currency related hedging instruments on the Corporation's financial position and performance are as follows:

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

7. Financial Instruments and Risk Management – *continued* –

c) Financial risk management – *continued* –

						As at September 30, 2018
	Exchange rate range	Maturity	Hedge ratio[1]	Notional amount	Change in value[2]	Fair value (CA$)
Derivatives designated as cash flow hedges (revenues):						
Currency option collars to sell (US$ for CA$)	*1.2525 - 1.3325*	0 to 9 months	1:1	US$ 33,750	240	290
Forward contracts to sell (US$ for CA$)	*1.2675 - 1.3165*	0 to 9 months	1:1	US$ 33,750	335	335

(1) The foreign exchange forward and option contracts are denominated in the same currency as the highly probable future revenue (US$), therefore the hedge ratio is 1:1.

(2) Change in fair value associated to the spot component of the forward contracts or the intrinsic value of the option contract related to the spot component, as used to determine hedge effectiveness.

				As at December 31, 2017
	Exchange rate range	Maturity	Notional amount	Fair value (CA$)
Derivatives designated as cash flow hedges (revenues):				
Currency option collars to sell (US$ for CA$)	*1.2000 - 1.2650*	0 to 12 months	US$ 35 000	(414)
Forward contracts to sell (US$ for CA$)	*1.2360*	0 to 12 months	US$ 17 500	(327)

The Corporation enters into foreign currency option contracts in relation to future US dollar denominated revenues qualified as highly probable forecast transactions for hedge accounting purposes. Under the Corporation's policy, the critical terms of the forward exchange contracts and the options are closely aligned with the hedged items. The Corporation designates the spot component of forward contracts and the intrinsic value of foreign currency option contracts related to the spot component as the hedging instrument. The changes in the forward element of the foreign exchange forward contracts and the change in the time value and the forward element of the option contracts that relate to the hedged item are deferred in the costs of hedging reserve and recognized against the related hedged transaction when it occurs.

The following table represents the movement in accumulated other comprehensive income (loss) related to the hedging reserve:

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Accumulated other comprehensive loss, beginning of period	**(1,226)**	-	**(240)**	-
Adjustment on initial application of IFRS 9 *(Note 3)*	**-**	-	**(413)**	-
Adjusted accumulated other comprehensive loss, beginning of period	**(1,226)**	-	**(653)**	-
Net gain (loss) on derivatives designated as cash flow hedges, effective portion, including changes in fair values of foreign currency forward contracts attributable to forward points, and changes in fair values of foreign currency option contracts related to the forward elements and aligned time value	**1,386**	377	**(822)**	377
Amounts reclassified from accumulated other comprehensive income to net loss, and included in Revenue	**912**	(457)	**2,189**	(457)
Deferred tax	**(525)**	(55)	**(167)**	(55)
Accumulated other comprehensive income	**547**	(135)	**547**	(135)

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

7. Financial Instruments and Risk Management – *continued* –

c) Financial risk management – *continued* –

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Longer-term risks associated with satisfying its contractual obligations in respect of its debt and convertible debentures are dependent on the Corporation's ability to generate future cash flows. The Corporation manages its liquidity risk by forecasting cash flow requirements for its planned operating activities as well as its investing and financing activities.

On September 28, 2018 the Corporation received deferral of principal payments totaling $10.8 million for the unsecured debt facility and the senior secured loan from June 30, 2018 up to, but including, October 31, 2018 and up to, but excluding, October 31, 2018 respectively. Diaquem and Caterpillar also agreed to waive the obligation of the Corporation to meet the financial ratio until, and excluding, October 31, 2018 and until and including, October 31, 2018 respectively.

On October 2, 2018, the Corporation announced a series of financing transactions with lenders and key stakeholders designed to provide greater financial and operating flexibility (the "Financing Package"). In total, the Financing Package represents additional consideration and liquidity for the Corporation of up to $129 million (refer to note 19).

At September 30, 2018, the Corporation is committed to minimum future principal and interest payments for debt, as follows:

	Up to 1 year	1-5 years	Over 5 years	Total
Unsecured debt facility (# 1) *(Note 9a)*	1,630	16,288	-	**17,918**
Other secured debt *(Note 9b)(1)*	1,571	6,286	6,679	**14,536**
Renard mine road debt facility *(Note 9c)*	6,000	32,552	46,372	**84,924**
Senior Secured Loan *(Note 9d) (1)*	12,439	138,259	-	**150,698**
Obligations under finance leases *(Note 9e)*	14,086	36,961	2,774	**53,821**
Convertible debentures *(Note 10)*	6,574	118,507	-	**125,081**
	42,300	**348,853**	**55,825**	**446,978**

(1) The Financing Package signed on October 2, 2018 is reflected in the commitments, refer to note 19.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

8. Property, Plant and Equipment

	Buildings, Camp and Accommodations	Roads & Airstrip	Leasehold Improvements	Exploration, Laboratory and Office Equipment	Vehicles and Machinery[2]	Mineral Properties	Total
Cost							
As at December 31, 2016	526,454	60,145	371	6,815	68,312	484,139	1,146,236
Additions	53,917	280	-	327	14,988	62,145	131,657
Disposals	-	-	-	-	(492)	-	(492)
Tax credit refund	-	(9,756)	-	-	-	-	(9,756)
Capitalized depreciation[1]	-	-	-	-	-	34,800	34,800
As at December 31, 2017	**580,371**	**50,669**	**371**	**7,142**	**82,808**	**581,084**	**1,302,445**
As at December 31, 2017	580,371	50,669	371	7,142	82,808	581,084	1,302,445
Adjustment - IFRS 15 *(Note 3)*	22,717	623	-	-	-	21,485	44,825
Adjusted - January 1, 2018	603,088	51,292	371	7,142	82,808	602,569	1,347,270
Additions	**13,639**	-	-	**393**	**22,238**	**41,159**	**77,429**
Disposals	**(74)**	-	-	**-**	**(590)**	**-**	**(664)**
Capitalized depreciation[1]	-	-	-	-	-	**10,920**	**10,920**
As at September 30, 2018	**616,653**	**51,292**	**371**	**7,535**	**104,456**	**654,648**	**1,434,955**
Accumulated depreciation and impairment							
As at December 31, 2016	18,433	7,963	277	3,376	10,386	3,717	44,152
Depreciation for the period[3]	37,120	3,732	44	1,248	6,875	49,666	98,685
Disposals	-	-	-	-	(102)	-	(102)
Impairment charge	-	-	-	-	-	171,000	171,000
As at December 31, 2017	**55,553**	**11,695**	**321**	**4,624**	**17,159**	**224,383**	**313,735**
As at December 31, 2017	55,553	11,695	321	4,624	17,159	224,383	313,735
Adjustment - IFRS 15 *(Note 3)*	1,623	45	-	-	-	(39,193)	(37,525)
Adjusted - January 1, 2018	**57,176**	**11,740**	**321**	**4,624**	**17,159**	**185,190**	**276,210**
Depreciation for the period[3]	**31,495**	**2,626**	**33**	**809**	**6,279**	**36,446**	**77,688**
Disposals	**(9)**	**-**	**-**	**-**	**(159)**	**-**	**(168)**
As at September 30, 2018	**88,662**	**14,366**	**354**	**5,433**	**23,279**	**221,636**	**353,730**
Net book value							
As at December 31, 2017	524,818	38,974	50	2,518	65,649	356,701	988,710
As at September 30, 2018	**527,991**	**36,926**	**17**	**2,102**	**81,177**	**433,012**	**1,081,225**

(1) *A portion of the depreciation is recorded as a project development cost in Mineral Properties, as it represents costs directly attributable to the underground mine currently in development.*

(2) *Included in vehicles and machinery are assets with a net book value of $70.3 million (December 31, 2017 –$57.3 million) acquired pursuant to a finance lease agreement (refer to Note 9e).*

(3) *A portion of the depreciation is recorded in the cost of inventory and, as such, the amount of depreciation recorded in the statement of loss is influenced by inventory movements (refer to Note 6).*

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

9. Long-Term Debt

	September 30, 2018	December 31, 2017
Unsecured Debt Facility #1 *(Note 9a)*	**12,886**	14,477
Other Secured Debt (*Note 9b*)	**11,301**	11,994
Renard Mine Road Debt Facility *(Note 9c)*	**51,103**	49,022
Senior Secured Loan *(Note 9d)*	**117,112**	116,300
Obligations under finance leases *(Note 9e)*	**46,731**	35,497
	239,133	227,290
Less : current portion of long-term debt	**49,501**	35,637
Non-Current Long-Term Debt	**189,632**	191,653

a) Unsecured Debt Facility # 1

	September 30, 2018	December 31, 2017
Opening balance	**14,477**	18,533
Accretion	**332**	559
Principal repayment	**(1,923)**	(4,615)
	12,886	14,477
Less : current portion	**5,769**	4,231
Non-current portion	**7,117**	10,246

The loan bears interest at a rate of 12% per annum, payable in cash and principal is being repaid in equal monthly instalments of $0.4 million since February 1, 2017. On September 28, 2018 the Corporation received deferral of principal payments totalling $1.5 million for the unsecured debt facility from June 30, 2018 up to, and including, October 31, 2018. On October 2, 2018, the Corporation received the right to defer principal payments from June 30, 2018 to 2020, totalling $9.2 million (refer to note 19).

b) Other Secured Debt

	September 30, 2018	December 31, 2017
Opening balance	**11,994**	12,717
Principal repayment	**(693)**	(723)
	11,301	11,994
Less : current portion	**970**	931
Non-current portion	**10,331**	11,063

The commencement of construction on July 10, 2014 triggered a liability of $12.7 million pursuant to the terms of an existing agreement between the Corporation and an arm's length third party. Under the terms of this agreement, the Corporation will pay interest at a rate of 5.5% per annum quarterly in arrears on the principal amount of the liability during the construction period. Principal repayments made quarterly, in arrears, commenced in the month following the Renard Diamond Mine reaching commercial production, which was April 1, 2017, and ending at maturity date, on October 1, 2027.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

9. Long-Term Debt – *continued* –

c) Renard Mine Road Debt Facility

	September 30, 2018	December 31, 2017
Opening balance	**49,022**	49,781
Accretion*	**2,081**	2,736
Principal repayment	**-**	(3,495)
	51,103	49,022
Less : current portion	**3,614**	3,614
Non-current portion	**47,489**	45,408

** Calculated based on an effective interest rate of 10.0%*

The Government of Québec provided SDCI with $77 million of financing, with $70 million used to complete the road construction work and $7 million used to construct an airstrip, at an annual interest rate of 3.35% percent, for a term of 15 years, with annual repayments of principal and interest payments beginning on December 19, 2016, and ending on December 19, 2027.

d) Senior Secured Loan

	September 30, 2018	December 31, 2017
Opening balance	**116,300**	-
Proceeds received	-	130,000
Transaction costs	-	(5,015)
Accretion	**812**	601
Principal repayment	-	(9,286)
	117,112	116,300
Less : current portion	**27,857**	18,571
Non-current portion	**89,255**	97,729

On July 8, 2014, SDCI and Diaquem, a wholly owned subsidiary of RQ, entered into the Senior Secured Loan Agreement that provides SDCI the right to borrow up to $100 million (the “Senior Secured Loan, Tranche A”), plus any amounts outstanding under the Unsecured Debt Facility #2, including capitalized interest therewith.

During 2017, the Corporation borrowed $130 million under the Senior Secured Loan. The loan bears interest at prime rate plus applicable margin of 4.75% for a three years term. Following Completion, which was attained on February 7, 2018, the applicable margin over prime rate is reduced to 4.25%. Interest is paid in arrears at the end of each quarter and principal repayments are made bi-annually, in June and December.

9. Long-Term Debt – *continued* –

d) Senior Secured Loan – *continued* –

The Senior Secured Loan includes covenants customary for a transaction of this nature, including the following financial covenants:

i) Maintaining a reserve tail ratio of at least 28%;
ii) Maintaining a historical debt service coverage ratio in respect of the immediately preceding four-quarter period greater than or equal to 1.25:1.0 at all times following Completion;
iii) Maintaining a projected debt service coverage ratio in respect of the immediately succeeding four-quarter period greater than or equal to 1.25:1.0 at all times following Completion;
iv) Until the Parental Support Termination Date, which occurs when 50% of the principal amount borrowed is repaid, the Corporation must maintain a tangible net worth, on a consolidated basis, of $250 million; after the Parental Support Termination Date, SDCI must maintain a tangible net worth, on a consolidated basis, of $250 million.

On September 28, 2018 the Corporation received deferral of principal payments totalling $9.3 million for the senior secured loan from June 30, 2018 up to, but excluding, October 31, 2018. Diaquem also agreed to waive the obligation of the Corporation to meet the financial ratio until, and excluding, October 31, 2018.

On October 2, 2018, the Corporation received the right to defer principal payments from June 30, 2018 to 2020, totalling $37.1 million. Diaquem also agreed to withdraw the obligation of the Corporation to meet the financial ratios for the remainder of the loan (refer to note 19).

e) Obligations Under Finance Leases

On July 25, 2014, SDCI and Caterpillar Financial Services Limited (“Caterpillar”) entered into an equipment finance facility of US$75 million for the purchase of CAT and non-CAT equipment. Tranche A, which was closed during 2017, provided for a maximum amount of US$50 million, less upfront payments ranging from 15% to 50% based on the type of equipment financed. Tranche B provides for an additional maximum amount of US$25 million up to December 31, 2018, less upfront payments ranging from 10% to 30% based on the type of equipment financed.

The term of the facility is six years from the date of each drawdown and the facility is secured by the equipment financed. In addition, SDCI must place the lesser of US$3.0 million and 10% of the outstanding principal balance of the leases into an account for the benefit of Caterpillar until the first anniversary of completion of the Renard Diamond Mine (the “debt service reserve account” or “DSRA”). Tranche A and B bear interest at the three-month London Inter-bank Offer Rate (“LIBOR”), plus 4%. Interest is payable quarterly.

Covenants in the equipment finance facility include: i) a reserve tail ratio of 25% if there is any indebtedness under Tranche A of the facility (20% if the only amounts outstanding are under Tranche B); ii) historical and projected debt service coverage ratios, as described in Note 9d), greater than or equal to 1.15:1.0; and iii) a requirement for the Corporation, on a consolidated basis, to maintain a tangible net worth of $250 million. On September 28, 2018 Caterpillar agreed to waive the obligation of the Corporation to meet the financial ratio until, and including, October 31, 2018.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

9. Long-Term Debt – *continued –*

e) Obligations Under Finance Leases – *continued –*

	September 30, 2018	December 31, 2017
Opening balance	**35,497**	37,284
New debt obligations under finance leases [(1)]	**16,475**	7,657
Change in foreign exchange rate	**1,187**	(2,268)
Principal repayment	**(6,428)**	(7,176)
	46,731	35,497
Less: current portion	**11,291**	8,290
Non-current portion	**35,440**	27,207

(1) As at September 30, 2018 a deposit of $1.9 million (US$1.5 milion) has been set aside, and is recorded in Other Financial Assets as collateral until the total future obligations are fully settled (December 31, 2017 -$3.8 milion (US$ 3.0 milion)).

Future minimum lease payments pursuant to SDCI's finance leases are as follows:

	Up to 1 year	**1-5 years**	**Over 5 years**	**Total**
Minimum lease payments	14,086	36,961	2,774	**53,821**
Finance charges	(2,795)	(4,160)	(135)	**(7,090)**
Total	**11,291**	**32,801**	**2,639**	**46,731**

f) Deferred Transaction Costs

	September 30, 2018	December 31, 2017
Opening Balance	**8,760**	12,013
Additions	**881**	247
Amortization	**(382)**	(739)
Transfer to debt, equity or assets	**(167)**	(2,761)
Ending Balance	**9,092**	8,760

Deferred transaction costs consist primarily of legal and advisory fees, regulatory filing fees and other financing expenses. The balance of $9.1 million as at September 30, 2018 (December 31, 2017 - 8.8 million) relates mainly to the Stream which closed on July 8, 2014, the June 28, 2017 arrangement fee payment on Tranche B of the equipment finance facility and the Financing Package closed on October 2, 2018 (refer to note 19). Deferred transaction costs to be netted against the gross proceeds of the respective financing transaction to which they relate once funds are received with the exception of the finance leases (added to the cost of the asset when acquired) and the Stream, where the costs are accounted for as a deferred contract acquisition cost and are recognized as cost of goods sold.

g) Finance Costs

For the three and nine months ended September 30, 2018, borrowing costs on long-term debt totalling $8.8 million and $ 25.8 million, respectively, have been expensed in financial expenses (September 30, 2017 - $6.9 million and $20.4 million, respectively).

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

10. Convertible Debentures

The Convertible Debentures matures on July 8, 2021 and does not require any principal repayments until the maturity date. Interest will accrue at a rate of 6.25% per annum from July 8, 2014, payable semi-annually on the last day of June and December of each year. In certain circumstances, the Corporation can satisfy the interest payment obligation through the issuance of common shares. The Convertible Debentures rank (i) subordinate in right of payment to the payments of all secured obligations including Stream Net Proceeds to the Stream Buyers under the Streaming Agreement and payments required under the Senior Secured Loan, and (ii) pari passu with all outstanding unsecured indebtedness for borrowed money of Stornoway.

The Convertible Debentures are convertible at the holder's option into common shares of the Corporation at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date fixed for redemption thereof, at the Conversion Price, being US$0.8863 for one common share, subject to adjustment in certain limited circumstances. The number of Common Shares issuable upon conversion of the Convertible Debentures, which are denominated in US dollars, will be determined based on the Bank of Canada CAD/USD noon exchange rate on the business day prior to the date of conversion.

The Convertible Debentures are a compound instrument, which are in their entirety regarded as a financial liability. The initial carrying amount of $48.8 million for the debt host represents the residual amount of the proceeds after separating out the $34.4 million initial fair value of the derivative, which represents the estimated fair value of the conversion option. Transaction costs were allocated on a pro-rata basis between the host and the derivative. The table below shows the change in the carrying value of the Convertible Debentures:

	For the nine months ended September 30, 2018			December 31
	Host	**Derivative**	**Total**	2017
Opening balance	**71,128**	**9,689**	**80,817**	102,769
Change in fair value of derivative	**-**	**(9,161)**	**(9,161)**	(21,742)
Change in foreign exchange rate	**2,289**	**187**	**2,476**	(6,207)
Accretion	**5,163**	**-**	**5,163**	5,997
	78,580	**715**	**79,295**	80,817

The derivative was valued using a convertible bond valuation model. The following key assumptions were used in that model:

	September 30, 2018	December 31, 2017
Expected remaining life (years)	**2.8**	3.5
Expected volatility	**32.1%**	31.9%
Risk-free rate*	**3.0%**	2.2%
Credit spread	**9.8%**	10.6%
Change of control probability	**0%**	0%

*The risk-free rate reflects the US dollar swap rate for the equivalent term based on the zero coupon curve.

11. Contract Liabilities

On July 8, 2014, FCDC entered into a diamond streaming agreement (the "Stream"), pursuant to which FCDC shall sell to the Stream Buyers, and the Stream Buyers shall purchase from FCDC, a 20% undivided interest in each of the run of mine diamonds produced from certain kimberlite bodies over the life of the Renard Diamond Mine. The Streaming Agreement provided for the Stream Buyers making up-front payments to FCDC, representing a prepayment of a portion of the purchase price payable for diamonds produced by the Renard Diamond Project, in an aggregate amount of US$250 million (the "Deposit"), that was disbursed in three instalments.

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

11. Contract Liabilities *– continued –*

The Corporation compared the contracted price to standalone selling prices of future deliveries in effect on July 8, 2014, and concluded the contracted price to be discounted to take into consideration a significant financing component of 15.2%, compounded annually. During the first quarter of 2018, the Corporation revised its deliveries forecasts for the year ending December 31, 2018, resulting in a cumulative catch-up adjustment to revenue.

	September 30, 2018	December 31, 2017
Opening balance	**297,781**	**322,806**
Adjustment on initial application of IFRS 15	**83,679**	**-**
Adjusted opening balance	**381,460**	**322,806**
Accretion expense	**43,514**	**-**
Revenue recognized	**(32,475)**	**(25,025)**
Cumulative catch-up adjustment to revenue	**(10,558)**	**-**
	381,941	**297,781**
Less: current portion	**57,897**	**23,478**
Non-current contract liabilities	**324,044**	**274,303**

On October 2, 2018, the Stream was amended comprising a supplementary up front deposit of US$45 million in cash in consideration of certain sales and pricing changes (refer to note 19).

12. Income and Mining Tax

During the three and nine months ended September 30, 2018, the Corporation recognized a deferred and income tax recovery of $14.1 million and $28.1 million respectively, representing an effective tax rate of 27.2% and 25.0% (September 30, 2017 – $3.1 million and $17.5 million expense, respectively, representing an effective tax rate of 49.5% and 90%), compared to the combined Canadian federal and provincial statutory income tax rate of 26.7%. For the nine months ended September 30, 2018, the lower effective rate compared to the statutory rate is due to non-deductible expenses. For the three months ended September 30, 2018, the higher effective rate compared to the statutory rate is due to decrease of non-deductible expenses related to the foreign exchange gain on the debenture. For the nine months ended September 30, 2017, the increase is due to provincial mining taxes and to a mining tax credit of $9.8 million recognized as a credit against property, plant and equipment that was received in the first quarter of 2017, as it relates to costs incurred towards the construction of the Route 167 Extension from November 1, 2012 to October 31, 2013. As a result, a $9.8 million deferred income tax liability was recognized to reflect the relinquishing of future Quebec mining tax deductions.

13. Asset Retirement Obligation

As at September 30, 2018, a pre-tax discount rate of 2.41% (December 31, 2017 – 2.36%) was used to determine the estimated asset retirement obligation, assuming the reclamation work would be completed within 14 years. The undiscounted amount of inflation-adjusted estimated future cash flows is $26.7 million (December 31, 2017 - $21.7 million). As at September 30, 2018, the asset retirement obligation was increased by $3.6 million (December 31, 2017 - $2.3 million) to reflect the construction work performed on site ($0.4 million), and a revision to the expected closure costs, which was updated during June 2018 ($3.2 million).

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

14. Share Capital

a) Performance Share Unit Plan

Effective April 19, 2018, the Corporation granted, under the Performance Share Unit ("PSU") Plan for officers and key employees, a total of 6,946,470 PSUs. A total of 1,196,470 PSUs granted vested immediately, while the remaining 5,750,000 PSUs vest over a 3-year period. As of September 30, 2018, the Corporation has revised its estimates for non-market related performance conditions. For the three and nine months ended September 30, 2018, the expense related to the PSU plan represents $0.4 million and $1.5 million, respectively.

b) Deferred Share Unit Plan

Effective April 19, 2018, the Corporation granted, under the Deferred Share Unit ("DSU") Plan for directors, a total of 1,128,778 DSUs which vested immediately. The Corporation used the share price at time of grant to estimate a fair value of $0.6 million ($0.57 per DSU). As of September 30, 2018, no additional DSU's was granted.

c) Employee Share Purchase Plan

Effective January 1, 2018, eligible employees of the Corporation were given the opportunity to participate in an employee share purchase plan ("ESPP"). Under the ESPP, employees can contribute up to 10% of their gross salary towards the purchase of common shares of the Corporation. Six months after the employee contribution, the Corporation contributes an amount equal to 50% of the employee contribution, providing that the employee shares are still in the employee's account at the end of this six-month period, and that the employee remains employed by the Corporation. During the nine-month period ended September 30, 2018, the Corporation issued 1,244,877 common shares under the ESPP.

d) Earnings (Loss) per Share

	Three months ended		**Nine months ended**	
	September 30, 2018	September 30, 2017	**September 30, 2018**	September 30, 2017
Basic earnings per share:				
Net (loss) income	**(37,645)**	2,289	**(84,489)**	4,226
Weighted average number of shares outstanding	**836,164,222**	829,373,170	**835,721,478**	828,866,844
Basic earnings (loss) per share	**(0.05)**	**Nil**	**(0.10)**	**0.01**
Diluted earnings per share:				
Net (loss) income	**(37,645)**	2,289	**(84,489)**	4,226
Weighted average number of shares outstanding:				
Basic weighted average number of shares outstanding	**836,164,222**	829,373,170	**835,721,478**	828,866,844
Diluted earnings (loss) per share	**(0.05)**	Nil	**(0.10)**	0.01

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

15. Financial Expenses

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	**September 30, 2018**	September 30, 2017
Interest income on cash, cash equivalents and short-term investments	**(130)**	(126)	**(584)**	(361)
Interest expense	**8,776**	6,942	**25,763**	20,400
Accretion expense on contract liabilities *(Note 11)*	**14,502**	-	**43,514**	-
Convertible debentures - Unrealized gain on fair value of derivatives	**(837)**	(1,900)	**(9,161)**	(16,843)
Senior Secured loan – Standby fees	-	384	-	1,418
Other				
Accretion on asset retirement obligation	**118**	97	**303**	259
Standby fees	**10**	13	**57**	18
	22,439	5,410	**59,892**	4,891

16. Related Party Transactions

The Corporation entered into the following transactions with related parties not otherwise disclosed in these financial statements:

(i) For the three and nine months ended September 30, 2018, the Corporation incurred interest of $2.4 million and $7.4 million, respectively (three and nine months ended September 30, 2017 – interest and commitments fees of $1.5 million and $4.5 million, respectively), and $0.5 and $2.2 million in royalties (three and nine months ended September 30, 2017 – $0.9 million and $2.6 million, respectively) with Diaquem, Ressources Quebec (“RQ”) and Investissement Quebec (“IQ”). Collectively, as at September 30, 2018, Diaquem, RQ and IQ own 25.1% of the Corporation’s issued and outstanding common shares and therefore have significant influence over the Corporation;

(ii) For the three and nine months ended September 30, 2018, the Corporation incurred interest of $0.4 million and $1.3 million, respectively (three and nine months ended September 30, 2017 - interest and standby fees of $0.4 million and $1.3 milllion, respectively) payable to Orion Co-Investment I Limited (“Orion”). As at September 30, 2018, Orion owns 15.6% of the Corporation’s issued and outstanding common shares and US$20.5 million of the US$81.3 million Convertible Debentures issued and therefore has significant influence over the Corporation.

17. Supplemental Schedule of Non-Cash Investing and Financing Activities

	September 30, 2018	December 31, 2017
Finance expense accrual	**6,260**	255
Property, plant and equipment included in accounts payable and accrued liabilities	**3,438**	6,560

(tabular amounts expressed in thousands of Canadian dollars, unless otherwise stated)

17. Supplemental Schedule of Non-Cash Investing and Financing Activities – *continued* –

Reconciliation of investment in Property, Plant & Equipment :

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	**September 30, 2018**	September 30, 2017
Balance, beginning of the period	**1,089,354**	1,112,848	**988,710**	1,102,084
Adjustment on initial application of IFRS 15 *(Note 3)*	**-**	-	**82,350**	-
Adjusted balance, beginning of the period	**1,089,354**	1,112,848	**1,071,060**	1,102,084
Balance, end of the period	**1,081,225**	1,126,616	**1,081,225**	1,126,616
Change	**(8,129)**	13,768	**10,165**	24,532
Add-back (subtract):				
Depreciation expense, net of capitalized depreciation	**30,142**	16,164	**66,766**	48,175
Tax credit refund	**-**	-	**-**	9,756
Property, plant and equipment included in working capital	**(851)**	(1,541)	**3,121**	24,971
Finance leases included in property, plant and equipment	**(1,014)**	-	**(1,014)**	-
Asset retirement obligation	**523**	1,003	**(3,605)**	(1,901)
Other	**(82)**	(101)	**103**	(378)
Property, Plant & Equipment per Statements of Cash Flows	**20,589**	29,293	**75,536**	105,155

18. Contingencies

Pursuant to flow-through financing agreements entered into with investors in 2013 under the look-back rules, the Corporation committed to incur, in 2014, Canadian Exploration Expenses with specific criteria in accordance with Canadian tax laws. In January 2018, the Corporation received from the Canada Revenue Agency ("CRA") a proposed assessment denying eligibility of certain expenses, representing $6.1 million of Canadian Exploration Expenses renounced to the investors. During the third quarter, the Corporation received a revised proposed assessment from the CRA denying eligibility of further expenses related to the same flow-through financing, which now represent in the aggregate approximately $9.7 million. During the third quarter, Management discussions with CRA reached a favourable outcome for the Corporation, the CRA proposed adjustments which has no monetary impact for the Corporation, no significant impact on unused deductions and no impact on the applicable flow through subscription agreements. At this time, Management approved CRA proposed modifications and a final notice of assessment is to be received.

19. Subsequent event

On October 2, 2018, the Corporation announced a series of financing transactions with lenders and key stakeholders designed to provide greater financial and operating flexibility (the "Financing Package"). In total, the Financing Package represents additional consideration and liquidity for the Corporation of up to $129 million by way of:

- The deferral of certain loan principal repayments for a 24 month period, representing debt service cost deferral of more than $46million, with an additional amount of more than $7 million subject to approvals;
- Amendments to the Renard diamond streaming agreement comprising a supplementary up front deposit of the US dollar equivalent of $45 million in cash and certain sales and pricing changes;
- A private placement of units consisting of common shares and warrants for approximately $20 million, with an additional amount of up to approximately $10 million, subscribed by existing shareholders.

Amended Loan Agreements

The Corporation has entered into agreements with certain lenders on the terms described below:

The Corporation and Diaquem inc. ("**Diaquem**"), an affiliate of Investissement Québec ("**IQ**") have agreed to amend certain terms of the Credit Agreement dated July 8, 2014 between the Corporation, as guarantor, its wholly-owned subsidiary Stornoway Diamonds (Canada) Inc. ("**SDCI**"), as borrower, and Diaquem as lender (the "**Senior Secured Loan**") to provide for (i) a moratorium on principal repayments for the period from June 30, 2018 up to, but excluding, June 30, 2020, (ii) amendments to SDCI's obligation to make mandatory repayments (currently required at 50% of excess cash flow) and to the historical and projected debt service coverage ratios and (iii) acceleration of the maturity of the Senior Secured Loan to June 30, 2021.

Concurrently, the Corporation has also agreed with Fonds de solidarité FTQ, Fonds régionaux de solidarité FTQ Nord-du-Québec and IQ to amend certain terms of the *Convention de prêt* dated May 3, 2012 (the "**Fonds Loan**") to provide for (i) a moratorium on principal repayments for the period from June 30, 2018 up to, but excluding, June 30, 2020 and (ii) the extension of the maturity date from May 3, 2021 to July 1, 2021.

The Corporation has also requested a moratorium on principal repayments from one of its lenders for a period of 24 months commencing as of June 30, 2018. The moratorium is subject to formal approval by such lender, which is expected to be obtained no earlier than the second half of November 2018. When combined with the amendments to the Senior Secured Loan and the Fonds Loan, these debt service deferral arrangements represent additional immediate or mid-term liquidity of $54 million in the aggregate to the Corporation.

19. Subsequent event – *continued* –

Amended Renard Streaming Agreement

The Corporation has entered into an amended and restated Purchase and Sale Agreement (the "**Amended Renard Streaming Agreement**") with Osisko Gold Royalties Ltd, Caisse de dépôt et placement du Québec ("**la Caisse**"), Triple Flag Mining Finance Bermuda Ltd., Albion Exploration Fund LLC and Washington State Investment Board, as buyers (collectively, the "**Buyers**") pursuant to which the Buyers have paid the Corporation the US dollar equivalent of $45 million in gross cash proceeds as an additional up front deposit to The Corporation's subsidiary, FCDC Sales and Marketing Inc. The terms of the Amended Renard Streaming Agreement provide that the Buyers will continue to purchase a 20% undivided interest in all diamonds produced from the Renard mining property for the life of the mine and, upon the completion of a permitted sale of diamonds, the Buyers will remit to the Corporation, in cash, the lesser of 40% of achieved sales price or US$40 per carat, with the balance of purchase price payable by the Buyers, if any, being paid by way of offset against the up-front deposits. Previously, the Renard Stream provided for a sale of an undivided interest in 20% of all diamonds produced from the first 5 project kimberlites to be mined at Renard for the life of mine, and the first 30 million carats from the property overall, with the Buyers remitting to The Corporation, in cash, US$50 per carat escalating at 1% per annum, with the balance of purchase price payable by the Buyers, if any, being paid by way of offset against the up-front deposits. The Corporation will continue as the appointed marketing agent for 100% of the Renard diamond production. For the purpose of calculating remittances, the Amended Renard Streaming Agreement will apply separately to Run of Mine ("**ROM**") diamonds sold at tender, and any diamonds smaller than the +7 DTC sieve size that are recovered in excess of agreed upon proportions within a run of mine diamond sale.

Private Placement of Units

On October 2, 2018, the Corporation completed a treasury offering of 57,142,858 units of the Corporation ("**Units**") with la Caisse on a private placement basis, for gross proceeds of approximately $20 million, at a price of $0.35 per Unit, with each unit comprised of one common share of the Corporation and one-half of a common share purchase warrant, with each whole warrant exercisable until October 2, 2023 for one common share of the Corporation at an exercise price of $0.455, subject to certain adjustments. In addition, The Corporation's largest shareholder, Ressources Québec (an affiliate of IQ) ("**RQ"**), has expressed the intent to subscribe for up to approximately $10 million in aggregate amount of Units on the same terms as the private placement with la Caisse, subject to RQ obtaining all necessary consent and approvals, including formal ministerial approval, which is expected no earlier than mid-November 2018.

Board Representation

Pursuant to the Financing Package announced, The Corporation has granted the right to nominate one member of the Corporation Board of Directors to la Caisse, based on its exclusive shareholding in the Corporation remaining above 5%, and a further right to the Buyers to nominate an additional member to the Board, based on their collective shareholding in the Corporation remaining above 5%.