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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Arctic Canadian Diamond Holding, LLC

Opinion

We have audited the combined financial statements of Arctic Canadian Diamond Company Ltd. and Arctic Canadian Diamond Marketing N.V. (collectively, the "Company"), which comprise:

- the combined statements of financial position as at December 31, 2022 and December 31, 2021
- the combined statements of profit for the years then ended
- the combined statements of comprehensive income for the years then ended
- the combined statements of changes in equity for the years then ended
- the combined statements of cash flows for the years then ended
- and notes to the combined financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the combined financial position of the Company as at December 31, 2022 and December 31, 2021, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
February 17, 2023

ARCTIC CANADIAN DIAMOND COMPANY
Naturally Beautiful. Mined Right.

Arctic Canadian Diamond Company Ltd. and Arctic Canadian Diamond Marketing N.V.

Combined Financial Statements

Years ended December 31, 2022 and 2021

Combined Statements of Financial Position

(expressed in thousands of United States dollars)

	December 31, 2022	December 31, 2021
ASSETS		
Property, plant and equipment *(note 6)*	302,863	320,935
Employee benefit plans (*note 14*)	1,614	—
Other non-current assets *(note 7)*	26,678	3,038
Non-current assets	331,155	323,973
Inventory and supplies *(note 8)*	203,257	209,957
Other current assets	5,214	9,037
Trade and other receivables *(note 9)*	8,149	10,987
Cash and cash equivalents	66,604	87,286
Current assets	283,224	317,267
Total assets	614,379	641,240
EQUITY		
Net parent investment *(note 10)*	61,719	(6,494)
Accumulated other comprehensive income	11,780	8,872
Equity attributable to owners of the Company	73,499	2,378
Non-controlling interest	(338)	(322)
Total equity	73,161	2,056
LIABILITIES		
Loans and borrowings *(notes 11, 24)*	127,490	133,200
Consideration payable *(note 12)*	35,252	33,853
Lease obligations *(note 13)*	6,105	16,385
Employee benefit plans *(note 14)*	798	2,424
Reclamation provisions *(note 15)*	231,760	292,630
Deferred income tax liabilities *(note 16)*	50,760	46,516
Non-current liabilities	452,165	525,008
Trade and other payables (*note 17*)	45,608	27,365
Current portion of loans and borrowings *(note 11, 24)*	—	41,355
Current portion of consideration payable *(note 12)*	14,881	10,866
Current portion of lease obligations *(note 13)*	9,671	8,236
Current portion of employee benefit plans *(note 14)*	—	271
Current portion of reclamation provision *(note 15)*	452	244
Income taxes payable	18,441	25,839
Current liabilities	89,053	114,176
Total liabilities	541,218	639,184
Total equity and liabilities	614,379	641,240

Commitments and guarantees (note 23)

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

Comparatives are for the period in which Arctic Canadian Diamond Company Ltd. commenced operations from February 3, 2021, to December 31, 2021. Arctic Canadian Diamond Company Ltd. was incorporated on December 18, 2020, and was dormant with no business transactions until February 3, 2021. Arctic Canadian Diamond Marketing N.V. was not acquired until February 3, 2021. (see note 2 (b))

Combined Statements of Profit

(expressed in thousands of United States dollars)

	Year ended December 31, 2022	Year ended December 31, 2021
Revenue *(note 18)*	493,845	295,724
Cost of sales *(note 19)*	(325,160)	(222,909)
Gross margin	168,685	72,815
Selling and distribution expenses *(note 19)*	(5,225)	(4,623)
General and administrative expenses *(note 19)*	(18,682)	(19,867)
Other expenses *(note 19)*	(6,082)	(2,150)
Other income *(note 20)*	191	16,511
Operating profit	138,887	62,686
Finance expenses *(note 21)*	(33,882)	(29,661)
Finance income *(note 4)*	3,132	11,664
Fair value adjustment on consideration payable *(note 12)*	(13,047)	(1,318)
Foreign exchange gain (loss)	897	(408)
Net finance costs	(42,900)	(19,723)
Profit before income taxes	95,987	42,963
Current income tax expense *(note 16)*	(18,360)	(29,575)
Deferred income tax (expense) recovery *(note 16)*	(2,730)	5,676
Income taxes	(21,090)	(23,899)
Net profit	74,897	19,064
Net profit (loss) attributable to:		
Owners of the Company	74,913	14,677
Non-controlling interest	(16)	4,387

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

Comparatives are for the period in which Arctic Canadian Diamond Company Ltd. commenced operations from February 3, 2021, to December 31, 2021. Arctic Canadian Diamond Company Ltd. was incorporated on December 18, 2020, and was dormant with no business transactions until February 3, 2021. Arctic Canadian Diamond Marketing N.V. was not acquired until February 3, 2021. (see note 2 (b))

Combined Statements of Comprehensive Income

(expressed in thousands of United States dollars)

	Year ended December 31, 2022	Year ended December 31, 2021
Net profit	74,897	19,064
Other comprehensive income		
Items that will not be reclassified to income		
Re-measurement of defined benefit obligation (net of tax expense of $1.5 million for year ended December 31, 2022 - net of tax expense of $4.7 million for the period ended December 31, 2021)	2,908	9,673
Total comprehensive income	77,805	28,737
Comprehensive income (loss) attributable to:		
Owners of the Company	77,821	23,549
Non-controlling interest	(16)	5,188

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

Comparatives are for the period in which Arctic Canadian Diamond Company Ltd. commenced operations from February 3, 2021, to December 31, 2021. Arctic Canadian Diamond Company Ltd. was incorporated on December 18, 2020, and was dormant with no business transactions until February 3, 2021. Arctic Canadian Diamond Marketing N.V. was not acquired until February 3, 2021. (see note 2 (b))

Combined Statements of Changes in Equity

(expressed in thousands of United States dollars)

	December 31, 2022	December 31, 2021
Net parent investment:		
Balance at beginning of year *(note 4)*	(6,494)	(8,391)
Contributions from parent	27,300	4,646
Dividend distribution	(34,000)	—
Acquisition of non-controlling interest *(note 5)*	—	(23,709)
Tax impact on acquisition of non-controlling interest	—	6,283
Profit attributable to owners of the Company	74,913	14,677
Balance at end of year	61,719	(6,494)
Accumulated other comprehensive income:		
Balance at beginning of year	8,872	—
Items that will not be reclassified to profit:		
Re-measurement of defined benefit obligation (net of tax expense of $1.5 million for year ended December 31, 2022 - net of tax expense of $4.7 million for the period ended December 31, 2021)	2,908	8,872
Balance at end of year	11,780	8,872
Non-controlling interest (“NCI”):		
Balance at beginning of year *(note 4)*	(322)	10,267
Net (loss) profit attributed to non-controlling interest	(16)	4,387
Other comprehensive income attributable to non-controlling interest	—	801
Contribution from minority interest partner	—	9,621
Distribution to minority interest partner *(note 5)*	—	(3,267)
Derecognition of non-controlling interest *(note 5)*	—	(22,131)
Balance at end of year	(338)	(322)
Total equity	73,161	2,056

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

Comparatives are for the period in which Arctic Canadian Diamond Company Ltd. commenced operations from February 3, 2021, to December 31, 2021. Arctic Canadian Diamond Company Ltd. was incorporated on December 18, 2020, and was dormant with no business transactions until February 3, 2021. Arctic Canadian Diamond Marketing N.V. was not acquired until February 3, 2021. (see note 2 (b))

Combined Statements of Cash Flows

(expressed in thousands of United States dollars)

	Year ended December 31, 2022	Year ended December 31, 2021
OPERATING		
Net profit	74,897	19,064
Adjustments for		
Depreciation and amortization	57,040	36,534
Deferred income tax expense (recovery)	2,730	(5,676)
Current income tax expense	18,360	29,575
Finance expenses	33,882	29,661
Other non-cash items	(261)	(4,106)
Fair value adjustment on consideration payable	13,047	1,318
Royalties paid (*note 12*)	(5,006)	—
Unrealized foreign exchange loss	286	592
Defined benefit plan contributions	(1,703)	(3,010)
Impairment of assets (*note 6*)	2,437	—
Interest paid	(9,191)	(10,123)
Income taxes paid	(25,218)	(16,598)
Change in non-cash operating working capital		
Accounts receivable	(31)	(1,150)
Inventory and supplies	6,032	(27,530)
Other current assets	3,824	(408)
Trade and other payables	20,336	(12,839)
Employee benefit plans	483	974
Net cash from operating activities	191,944	36,278
FINANCING		
Proceeds from loans and borrowings	—	85,000
Repayment of term loan	(61,906)	(8,094)
Contribution from minority interest partner	—	2,381
Payment to minority interest partner *(note 5)*	—	(717)
Contribution from parent	27,300	4,646
Dividend distribution	(34,000)	—
Lease payments *(note 13)*	(7,989)	(8,183)
Net cash from (used in) financing activities	(76,595)	75,033
INVESTING		
Purchase of property, plant and equipment	(109,495)	(67,894)
Acquisition of business *(note 4)*	—	43,823
Restricted cash	(10,956)	—
Collateral for reclamation surety bonds	(12,454)	—
Reclamation security deposits	(2,995)	—
Net cash used in investing activities	(135,900)	(24,071)
Net increase (decrease) in cash and cash equivalents	(20,551)	87,240
Cash and cash equivalents, beginning of year	87,286	—
Foreign exchange effect on cash balances	(131)	46
Cash and cash equivalents, end of year	66,604	87,286

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

Comparatives are for the period in which Arctic Canadian Diamond Company Ltd. commenced operations from February 3, 2021, to December 31, 2021. Arctic Canadian Diamond Company Ltd. was incorporated on December 18, 2020, and was dormant with no business transactions until February 3, 2021. Arctic Canadian Diamond Marketing N.V. was not acquired until February 3, 2021. (see note 2 (b))

Note 1: Reporting Entity

Arctic Canadian Diamond Holding, LLC (“ACDH”) is a limited liability company that was incorporated in Delaware, US and is held by a syndicate of investment funds comprising of DDJ Capital Management, LLC (“DDJ Capital”), Brigade Capital Management, LP (“Brigade”) and ACD Western Holding, LLC (“Western”). DDJ Capital was acquired by Polen Capital on February 1, 2022. ACDH’s registered office is located at 251 Little Falls Drive, County of New Castle, Wilmington, DE 19808.

On February 3, 2021, ACDH through its wholly owned subsidiary, Arctic Canadian Diamond Company Ltd. (“ACDC Ltd.” - incorporated on December 18, 2020, with registered office at 595 Burrard Street, Vancouver BC, V7X 1L3, Canada) acquired the Joint Venture Interests in Ekati Core Zone, Ekati Buffer Zone, Lac de Gras, along with other rights and interests in certain assets and assumed certain liabilities. ACDC Ltd. operates the Ekati Diamond Mine (“Ekati”) in Northern Canada.

Furthermore, on February 3, 2021, ACDH also acquired 100% controlling interest in Dominion Diamond Marketing N.V. which effective as of September 21, 2021, is known as Arctic Canadian Diamond Marketing N.V. (“ACDM N.V.”). ACDM N.V is incorporated in Antwerp, Belgium and its registered office is located at 15 Schupstraat, 2018 Antwerp, Belgium. ACDM N.V. markets polished and rough diamonds to the global market. The activities of ACDM N.V. are wholly dependent on the import of diamonds from Ekati.

Refer to Note 4 for assets acquired and liabilities assumed pertaining to ACDC Ltd. and ACDM N.V. on February 3, 2021 (collectively referred to as the “Acquisition”).

Following the Acquisition, ACDC Ltd. has ownership interests in the Ekati group of mining leases. The Ekati Diamond Mine consists of the Core Zone, which includes the primary mining operations and other kimberlite pipes, as well as the Buffer Zone, an adjacent area hosting kimberlite pipes having both development and exploration potential. ACDC Ltd. owned an 88.9% interest in the Core Zone up to September 30, 2021, and a 100% interest in the Buffer Zone. On September 30, 2021, ACDC Ltd. reached an agreement with the minority partner to convert its participating interest in the Core Zone Joint Venture (“JV”) to a royalty based on gross revenue of diamonds produced from the JV. As a result of this transaction, ACDC Ltd.’s ownership in the Core Zone increased to 100.0%. In addition, ACDC Ltd. also owns 78.3% interest in the mineral claims on the Lac de Gras property. ACDC Ltd. controls and consolidates the Ekati Diamond Mine and Lac de Gras; the interests of minority partners are presented as non-controlling interests within these combined financial statements.

Note 2: Basis of Preparation

(a) Basis of combination

These combined financial statements (“financial statements”) combine the financial statements of ACDC Ltd. and ACDM N.V. (collectively, the “Company”) which are under common control of ACDH.

(b) Statement of compliance

These combined financial statements (“financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The combined financial statements were approved by the Board of Directors on February 17, 2023.

(c) Comparatives

ACDH and ACDC Ltd. were dormant companies with no operations prior to February 3, 2021, and ACDM N.V. was not acquired by ACDH until February 3, 2021. Accordingly, the comparatives in these combined financial statements are for the period from February 3, 2021, to December 31, 2021, during which ACDH completed the Acquisition of ACDC Ltd. and ACDM N.V. and commenced operations on February 3, 2021.

(d) Basis of measurement

These combined financial statements were prepared on a going concern basis under the historical cost method. The significant accounting policies as presented in note 26 are consistent with the accounting policies of the Company and have been consistently applied for all periods presented.

(e) Currency of presentation

These combined financial statements are expressed in United States dollars, which is the functional currency of the Company and each of its subsidiaries. All financial information presented in United States dollars has been rounded to the nearest thousand.

(f) Standards issued but not yet effective

Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences - leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after January 1, 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. The Company plans to implement this standard by the effective date and does not expect any material impact on the combined financial statements.

Non-current liabilities with covenants (Amendments to IAS 1)

The International Accounting Standards Board ("IASB") has published 'Non-current Liabilities with Covenants (Amendments to IAS 1) to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. These amendments modify the requirements introduced by Classification of Liabilities as Current or Non-current on how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances: only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months.

The amendments are effective for reporting periods beginning on or after 1 January 2024. The amendments are applied retrospectively in accordance with IAS 8 and earlier application is permitted. The Company is on track for implementation of this standard by the effective date and does not expect any material impact on the combined financial statements.

Note 3: Use of Judgements and Estimates

In preparing these combined financial statements, management made judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the combined financial statements, as well as the reported amounts in combined statement of profit during the year. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the combined financial statements is included in the following notes:

a) Judgements

- Note 25 (b) (iii) – Liquidity and capital risk management: forecasting cash flows for current and subsequent fiscal years;
- Note 26 (c) (ii) – Commercial production: the start date of commercial production;
- Note 26 (c) – Impairment: assessment of impairment indications;
- Note 26 (m) – Commitments and contingencies: assumptions about likelihood and magnitude of an outflow of resources; and
- Note 26 (p) – Functional currency: determination of functional currency.

b) Assumptions and estimates

- Note 26 (b) – Business combination: fair value of consideration paid, the assets acquired and liabilities assumed;
- Note 26 (c) (iv) – Depreciation and amortization: ore reserve and mineral resource estimates and unit-of-production depreciation;
- Note 26 (d) – Impairment of non-financial assets: assumptions used to determine recoverable amounts;
- Note 26 (e) – Inventories: determination of net realizable value;
- Note 26 (i) – Pension benefits: key actuarial assumptions;
- Note 26 (j) – Mine rehabilitation and site restoration provision: expectation of future site closure and reclamation activities and the amount and timing of associated cash flows;
- Note 26 (k) – Recovery of deferred tax assets: assess the likelihood of taxable earnings; and
- Note 26 (o) – Assumptions used in determining the fair value of Consideration Payable.

Note 4: Acquisition of business

On February 3, 2021, ACDH together with its wholly owned subsidiary ACDC Ltd., completed the Acquisition. The purchase price was assumption of various liabilities owing to Dominion Diamond Mines ULC's creditors, employees, suppliers and surety bond holders, including assuming $70.0 million of Dominion Diamond Mines ULC's outstanding indebtedness under its existing revolving credit agreement and the surety bond for reclamation obligations of the Ekati mine.

The Acquisition has been accounted for as a business combination in accordance with IFRS 3, Business Combinations ("IFRS 3"). These combined financial statements have been prepared from the date of acquisition. Underlying assets acquired and liabilities assumed were based on the fair values at the date of acquisition. These fair values were determined using discounted cash flows, market information, independent appraisals and management's estimates.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

(a) Identifiable assets acquired and liabilities assumed

The following table provides the final fair values of net assets acquired:

		February 3, 2021
Cash	$	43,823
Accounts receivable		7,704
Inventory and supplies		175,050
Other current assets		8,628
Property, plant and equipment		288,548
Other non-current assets		3,193
Trade and other payables		(32,606)
Inter-company payables & receivables		(8,313)
Employee benefit plans		(16,666)
Income tax payable		(12,613)
Reclamation provisions		(295,619)
Lease Obligation		(17,019)
Deferred tax liability		(53,734)
Long-term debt		(88,500)
Non-controlling interest		(10,267)
Net parent investment (1)	$	(8,391)

(1) Net parent investment represents ACDH's net interest in the Company and eliminates to nil when consolidated with Dominion Diamond (India) Private Limited ("DDIPL"). DDIPL was also wholly acquired by ACDH on February 3, 2021, and is an entity under common control of ACDH, but is not included in these combined financial statements.

Transaction costs of $0.5 million related to the Acquisition were incurred during the year ended December 31, 2021. These transaction costs were primarily related to professional fees, legal, consulting and advisory fees for services rendered in connection with the Acquisition. On acquisition date the reclamation asset was valued at nil, as a result the first quarter change in estimate in the reclamation provision of $9.9 million was recorded in finance income in the combined statement of profit.

Note 5: Acquisition of NCI

On September 30, 2021, ACDC Ltd. reached an agreement with the minority partner to convert its participating interest in the Core Zone Joint Venture to a royalty based on gross revenue of diamonds produced from the JV. As a result of this transaction, the minority interest of 11.1% in Core Zone Joint Venture was derecognized and a consideration payable of $45.8 million which represents the fair value of future royalty distributions was recorded on the combined statement of financial position (Note 12). The difference between the fair value of the consideration payable and the carrying value of non-controlling interest, net of associated deferred tax impact has been recorded as a reduction in net parent investment.

During fiscal 2021 and prior to conversion to the royalty arrangement, ACDC Ltd. distributed $3.3 million to the minority interest partner in accordance with the term of the Core Zone JV agreement. $0.7 million of this distribution was paid in cash and $2.6 million was offset against the cash call receivable due from minority interest partner as of September 30, 2021.

After conversion to the royalty arrangement, ACDC Ltd. will apply the future royalty distributions against this receivable until fully collected, after which these distributions will be paid in cash. The receivable bears interest at LIBOR plus six percent. As of December 31, 2021, $2.4 million of royalty distributions were drawn down against the cash call receivable (refer to note 12). As at December 31, 2022, cash call receivable was at nil.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Note 6: Property, Plant and Equipment

	Mineral properties	Equipment and leaseholds	Furniture, equipment and other	Land and building	Assets under construction	Right-of-use assets	Total
COST							
Balance as at January 1, 2022	72,621	164,370	1,383	101,772	10,255	37,530	387,931
Additions (2) (3)	33,970	15,044	590	250	18,216	—	68,070
Impairment of assets	—	—	—	—	(2,437)	—	(2,437)
Disposals	—	(1,552)	—	—	(45)	—	(1,597)
Foreign exchange differences (1)	(14,834)	—	—	—	—	—	(14,834)
Balance as at December 31, 2022	91,757	177,862	1,973	102,022	25,989	37,530	437,133
ACCUMULATED DEPRECIATION/AMORTIZATION							
Balance as at January 1, 2022	5,289	43,062	823	12,222	—	5,600	66,996
Depreciation and amortization	14,234	33,669	306	14,190	—	6,427	68,826
Disposals	—	(1,552)	—	—	—	—	(1,552)
Balance as at December 31, 2022	19,523	75,179	1,129	26,412	—	12,027	134,270
NET BOOK VALUE							
As at December 31, 2022	72,234	102,683	844	75,610	25,989	25,503	302,863

	Mineral properties	Equipment and leaseholds	Furniture, equipment and other	Land and building	Assets under construction	Right-of-use assets	Total
COST							
Balance as at February 3, 2021	—	155,599	1,383	88,066	22,095	21,405	288,548
Additions (2) (3)	70,008	8,771	—	13,706	(11,840)	16,125	96,770
Foreign exchange differences (1)	2,613	—	—	—	—	—	2,613
Balance as at December 31, 2021	72,621	164,370	1,383	101,772	10,255	37,530	387,931
ACCUMULATED DEPRECIATION/AMORTIZATION							
Balance as at February 3, 2021	—	—	—	—	—	—	—
Depreciation and amortization	5,289	43,062	823	12,222	—	5,600	66,996
Balance as at December 31, 2021	5,289	43,062	823	12,222	—	5,600	66,996
NET BOOK VALUE							
As at December 31, 2021	67,332	121,308	560	89,550	10,255	31,930	320,935

(1) *These foreign exchange differences relate to the revaluation of the reclamation provisions.*

(2) *Additions include cash additions, right-of-use asset additions, property, plant and equipment ("PP&E") additions in payables, changes in estimate of reclamation provision and capitalized depreciation. During the year ended December 31, 2022, capitalized stripping and mine development costs included in mineral properties amounted to $86.1 million (December 31, 2021 – $70.1 million).*

(3) *As at December 31, 2022, the estimate for reclamation provision was decreased by $52.1 million which resulted in a corresponding decrease in the reclamation asset (December 31, 2021: $10.0 million decrease in estimate of reclamation provision of which $0.1 million was recorded as a change in reclamation asset and $9.9 million was recorded in finance income (note 4)).*

As at December 31, 2022 and 2021, there were no exploration and evaluation ("E&E") assets included in mineral properties.

(a) Impairment of assets

During the year, $2.4 million of costs related to Fox Deep that were capitalized in Assets under construction ("AUC") were written off. The Company has determined that it is unlikely that the existing work performed on Fox Deep would be recoverable and likely a new project study would be required if the Company were to proceed further with Fox Deep. Management did not identify any indicators of impairment related to other Property, Plant and Equipment.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Note 7: Other Non-Current Assets

	December 31, 2022	December 31, 2021
Sample diamonds	2,289	2,316
Restricted cash (a)	10,387	—
Reclamation deposits (b)	13,375	—
- Collateral posted for reclamation surety bonds	*10,748*	—
- Reclamation security deposits	*2,627*	—
Other	627	722
Total other non-current assets	26,678	3,038

The Company is required to post security with government agencies to ensure reclamation is completed on its mining properties as required by the legislation and regulations of Canada and the Northwest Territories. The security is in the form of cash, letters of credit (“LCs”) or surety bond.

(a) Restricted cash

Restricted cash comprised of CDN$14.2 million held by financial institutions as collateral for LCs. These LCs were held by government agencies as security for reclamation obligations.

(b) Reclamation deposits

Collateral posted for reclamation surety bonds

The Company has an agreement with surety providers whereby the Company provides cash collateral over time up to 100% of the face amount of the bond; and the bond value will be reduced by the payment. During fiscal 2022, CDN$16.0 million were made to government agencies and surety bond value was reduced accordingly. The remaining surety bond commitment is CDN$263.2 million (note 23).

Reclamation security deposits

During fiscal 2022, the Company made reclamation security payments to government agencies of CDN$3.9 million.

Note 8: Inventory and Supplies

	December 31, 2022	December 31, 2021
Stockpile ore	3,298	3,902
Rough diamonds – work in progress	47,847	42,213
Rough diamonds – finished goods	21,813	37,994
Supplies inventory	130,299	125,848
Total inventory and supplies	203,257	209,957

For the year ended December 31, 2022, inventories recognized in cost of sales were $325.2 million (year ended December 31, 2021 – $222.9 million). There were no inventories written-down during year ended December 31, 2022 (December 31, 2021 – nil).

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Note 9: Trade and Other Receivables

	December 31, 2022	December 31, 2021
Sales tax credits	7,263	7,246
Cash call receivable *(note 5)*	—	2,319
Other	886	1,422
Total trade and other receivables	8,149	10,987

The Company's exposure to credit risk is disclosed in note 25. Total trade receivables are collectable within the next 12 months.

Note 10: Net parent investment

As both ACDC Ltd. and ACDM N.V. are wholly owned subsidiaries of ACDH, net parent investment represents ACDH's net interest in both these entities. Net parent investment eliminates to nil on consolidation with other companies that are under common control of ACDH. ACDH contributed $4.6 million to ACDC Ltd. during the year ended December 31, 2021. During year ended December 31, 2022, ACDM N.V. distributed a dividend of $34.0 million to ACDH and ACDH contributed $27.3 million to ACDC Ltd.

Note 11: Loans and Borrowings

			December 31, 2022	December 31, 2021
	Maturity	Interest rate	Carrying amount	Carrying amount
1st Lien Credit Agreement ("1L Loan") [a, b]	2024	LIBOR rate + 5%	—	61,906
2nd Lien Credit Agreement ("2L Loan") [a]	2027	PIK 12.5% + 5%	120,490	106,536
3rd Lien Credit Agreement ("3L Loan") [a]	2030	PIK 14.0%	7,000	6,113
Total loans and borrowings			127,490	174,555
Less current portion			—	(41,355)
Non-current portion			127,490	133,200

(a) Loans and borrowings

(i) 1L Loan

The 1L Loan in principal amount of $70.0 million has a maturity date of December 31, 2024. The 1L Loan bears an interest rate of LIBOR (minimum of 1%) plus 5% (1st year). Subsequent to December 31, 2021, 1L Loan bears interest rate in the range of 7% to 9% for the remaining term. Interests are payable quarterly on the last day of each quarter commencing on March 31, 2021.

The Company is required to make mandatory principal repayments of $1.3 million on the last day of each quarter commencing on June 30, 2021.

In the event that the Company has Excess Cash Flow (as defined in the 1L agreement) for any fiscal quarter starting from the quarter ending December 31, 2021, the Company shall make a loan repayment in an amount equal to 25% of Excess Cash Flow for such quarter within 45 days after quarter end. Such repayment shall not result in the Company's cash balance being less than $15.0 million.

During the year ended December 31, 2021, the Company made principal repayments of $8.1 million. As at December 31, 2021 the Company has CDN$5.6 million of LCs secured under the 1L Loan issued to the government agencies for reclamation obligations for the Ekati mine. During 2022, these LCs were reduced by CAD$0.4 million and were fully cash collateralized by the Company. These cash collateral payments are reflected under other non-current assets as restricted cash (note 7).

Furthermore, the Company fully repaid the 1L Loan by June 30, 2022. Upon full repayment of the 1L Loan the Company is no longer subject to 1L debt covenants. Refer to note 27 for further details regarding the new 1L Loan.

(ii) 2L Loan

The 2L Loan in principal amount of $95.0 million has a maturity date of December 31, 2027. The loan bears an interest rate of 5% per annum payable in arrears on the last day of each quarter and 12.5% per annum Payment In Kind (“PIK”) interest added to the outstanding principal amount payable on the maturity date. As at December 31, 2022, the 2L Loan outstanding balance was $120.5 million which includes PIK of $25.5 million.

(iii) 3L Loan

The 3L Loan in principal amount of $8.5 million has a maturity date of December 31, 2030. The loan bears an interest rate of 14% per annum PIK interest added to the outstanding principal amount payable on the maturity date. On November 16, 2021, 3L Loan balance was reduced by $3.5 million per Amendment to the Third Lien Credit Agreement. The gain on debt forgiveness was included in Other Income. As at December 31, 2022, the 3L Loan outstanding balance was $7.0 million which includes $0.9 million (December 31, 2021 - $1.1 million) of PIK interest. The Company can make an optional repayment in whole or in part with certain break fees.

(b) Debt covenants

Starting with the quarter ending December 31, 2021, if the cash amount held in certain accounts is less than $25.0 million, the Company shall not at any time permit the 1L Loan net leverage ratio to exceed 1.25:1.00 for periods ending December 31, 2021, up until September 30, 2022, and thereafter 0.75:1.00.

The net leverage ratio is calculated as total outstanding principal amount of third-party indebtedness, divided by net income (loss) before interest expense (income), income taxes, and depreciation and amortization adjusted for items permitted under the credit facility agreement.

During fiscal 2022, after full repayment of the 1L Loan, the debt covenants under the 1L Loan are not applicable. The remaining non-financial covenants under the 2L and 3L agreements that are applicable as at December 31, 2021, and December 31, 2022, mainly relate to submission of financial information by certain dues dates and require capital expenditures to be within certain thresholds.

As at December 31, 2021 and December 31, 2022, the Company was in compliance with the required financial and non-financial covenants.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Note 12: Consideration payable

Consideration payable was recognized at fair value on October 1, 2021, and is calculated as the present value of future royalty distributions that are expected as diamonds are produced from Core Zone JV. These royalty distributions are calculated by multiplying a specific royalty percentage agreed upon with the minority partner; with the value of diamonds produced from Core Zone JV and are payable in cash within thirty days of end of each quarter.

The fair value of consideration payable is remeasured at each reporting period with any changes in fair value recognized in profit or loss. The fair value of consideration payable was measured using a discounted cash flow valuation model that considered the present value of future royalty distributions discounted using a discount rate of 10.0% (December 31, 2021 - 11.5%).

As at December 31, 2021, $2.4 million of royalty distributions were draw down against the cash call receivable. During fiscal 2022, $2.6 million of royalty distributions were offset against outstanding receivable from minority interest partner and $5.0 million was paid in cash.

A reconciliation of the carrying amount of consideration payable is set out below:

Consideration payable	**December 31, 2022**	**December 31, 2021**
Balance at beginning of year (1)	44,719	45,840
Royalties offset against cash call receivable	(2,627)	(2,439)
Royalties paid	(5,006)	—
Changes in fair value	13,047	1,318
Balance at end of year	50,133	44,719
Less current portion	(14,881)	(10,866)
Non-current portion	35,252	33,853

(1) Consideration payable was recognized at fair value on October 1, 2021.

Note 13: Leases

Property, plant and equipment comprises both owned and leased assets. The Company leases many assets including land and buildings, vehicles and machinery. Leases for which the Company is a lessee are presented below.

Right-of-use assets	**Mineral properties**	**Equipment and leaseholds**	**Land and buildings**	**Total**
Balance as at January 1, 2022	886	19,843	11,201	31,930
Additions for the year	—	—	—	—
Depreciation charge for the year	(164)	(3,645)	(2,618)	(6,427)
As at December 31, 2022	722	16,198	8,583	25,503

Right-of-use assets	**Mineral properties**	**Equipment and leaseholds**	**Land and buildings**	**Total**
Balance as at February 3, 2021	1,036	18,292	2,077	21,405
Additions for the year	—	4,972	11,153	16,125
Depreciation charge for the year	(150)	(3,421)	(2,029)	(5,600)
As at December 31, 2021	886	19,843	11,201	31,930

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Lease liabilities	
Maturity analysis — contractual undiscounted cash flows	**December 31, 2022**
Less than one year	10,263
Two to five years	6,481
More than five years	173
Total undiscounted lease liability as at December 31, 2022	16,917
Finance expense	(1,141)
Lease liabilities included in the statement of financial position as at December 31, 2022	15,776
Current	9,671
Non-current	6,105

Lease liabilities	
Maturity analysis — contractual undiscounted cash flows	**December 31, 2021**
Less than one year	9,763
Two to five years	17,016
More than five years	220
Total undiscounted lease liability as at December 31, 2021	26,999
Finance expense	(2,378)
Lease liabilities included in the statement of financial position as at December 31, 2021	24,621
Current	8,236
Non-current	16,385

Amounts recognized in profit or loss	**December 31, 2022**	**December 31, 2021**
Depreciation of right-of-use assets	6,427	5,600
Interest on lease liabilities	1,128	1,341

Amounts recognized in in the statement of cashflows	**December 31, 2022**	**December 31, 2021**
Total cash outflows for leases	7,989	8,183

Note 14: Employee Benefit Plans

The employee benefit obligation reflected in the combined statement of financial position is as follows:

	December 31, 2022	**December 31, 2021**
Net defined benefit asset	(1,614)	—
Total employee benefit asset	(1,614)	—
Net defined benefit liability	374	2,150
Defined contribution plan and other post-retirement plan obligation	424	545
Total employee benefit liabilities	798	2,695
Less current portion	—	(271)
Non-current portion	798	2,424

(a) Defined benefit pension plans

The Company contributes to defined benefit plans in Canada. Pension benefits are based on the length of service and highest average covered earnings. The plans are governed by the Retirement Advisory Committee. The defined benefit plans expose the Company to actuarial risks, such as longevity risk, currency risk, interest rate risk and market investment risk.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Defined Benefit Obligations	**December 31, 2022**	**December 31, 2021**
Defined benefit obligations at beginning of year	77,706	90,316
Service cost	2,814	2,774
Interest expense	2,263	2,184
Benefit payments	(4,879)	(6,779)
Remeasurements	(22,710)	(11,712)
Effect of changes in foreign exchange rates	(4,087)	923
Defined benefit obligations at end of year	51,107	77,706

	December 31, 2022	**December 31, 2021**
Net defined benefit (asset) liability – defined benefit plan	(1,614)	879
Net defined benefit liability – supplementary defined benefit plan	374	1,271
Balance at end of year	(1,240)	2,150

Plan Assets	**December 31, 2022**	**December 31, 2021**
Plan assets at beginning of year	75,556	74,209
Interest income	2,248	1,824
Total employer contributions	1,703	3,010
Benefit payments	(4,879)	(6,779)
Administrative expenses paid from plan assets	(36)	(35)
Return on plan assets, excluding imputed interest income	(18,164)	2,712
Effect of changes in foreign exchange rates	(4,081)	615
Plan assets at end of year	52,347	75,556

Funded Status	**December 31, 2022**	**December 31, 2021**
Accrued benefit obligation	51,107	77,706
Plan assets	52,347	75,556
Funded status - plan deficit (surplus)	(1,240)	2,150

As at the last valuation date, on December 31, 2022, the present value of the defined benefit obligation comprised approximately $39.8 million relating to active employees, $4.2 million relating to deferred members and $7.1 million relating to retired members.

Funding Policy

The Company funds the plans in accordance with the requirements of the Canadian Pension Benefits Standards Act, 1985 and the Pension Benefits Standards Regulations and the actuarial professional standards with respect to funding such plans. Funding deficits are amortized as permitted under the Regulations. In the Company's view, this level of funding is adequate to meet current and future funding needs in light of projected economic and demographic conditions. The Company may in its absolute discretion fund in excess of the legislated minimum from time to time, but no more than the maximum contribution permitted under the Canada's Income Tax Act. The expected contribution to the plan for the next fiscal year is $2.6 million.

The asset allocation of pension assets as at December 31, 2022 and December 31, 2021 was as follows:

Asset Category	**December 31, 2022**	**December 31, 2021**
Cash equivalents	—	1%
Equity securities	26%	24%
Fixed income securities	61%	64%
Real Estate	13%	11%
Total	100%	100%

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Actuarial assumptions	**December 31, 2022**	**December 31, 2021**
ACCRUED BENEFIT OBLIGATION		
Discount rate	5.20%	3.10%
Rate of salary increase	2.75%	2.00%
Rate of price inflation	2.00%	2.00%
Mortality table	CPM2014Priv with CPM-B Improvement	CPM2014Priv with CPM-B Improvement
BENEFIT COSTS FOR THE YEAR		
Discount rate	3.10%	2.65%
Expected rate of salary increase	2.00%	2.00%
Rate of compensation increase	2.00%	2.00%

	Total
Defined benefit schedule for disbursements within 1 year	4,219
Defined benefit schedule for disbursements within 2-5 years	16,329
Defined benefit schedule for disbursements after five or more years	32,999

Sensitivity Analysis - Defined Benefit Obligation	Changes in assumption	Decrease in assumption	Increase in assumption
Discount rate	0.50%	53,249	49,145
Salary growth rate	0.25%	50,784	51,447
Mortality table	1 year	51,567	50,629

The above sensitivity analysis illustrates the present value of defined benefit obligation and is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

(b) Defined contribution plan

During the year ended December 31, 2022, the Company recognized $4.9 million expenses (December 31, 2021 - $4.0 million) for the defined contribution plan. As at December 31, 2022 the defined contribution plan liability was $0.4 million (December 31, 2021 - $0.3 million).

Note 15: Reclamation Provisions

As at December 31, 2022, the estimated total undiscounted amount of the future cash flows required to settle the reclamation obligation is estimated to be CDN$489.1 million (December 31, 2021 – CDN$492.7 million). These obligations will be settled between 2023 to 2067. This amount has been discounted using risk-free rate of 3.28% (December 31, 2021 – 1.68%) and an inflation rate of 2.09% (December 31, 2021 – 1.82%) was applied.

Reclamation provisions are related to future environmental remediation and site restoration of mining site. The revision of previous estimates is based on revised expectations of reclamation activity costs, changes in estimated reclamation timelines and fluctuations in foreign exchange rates. A reconciliation of the carrying amount of asset retirement obligations as at December 31, 2021 is set out below:

Reclamation Provision	**December 31, 2022**	**December 31, 2021**
Balance at beginning of year	292,874	295,619
Revisions of previous estimates	(52,095)	(10,016)
Accretion of provision	6,267	4,658
Foreign exchange revaluation	(14,834)	2,613
Balance at end of year	232,212	292,874
Less current portion	(452)	(244)
Non-current portion	231,760	292,630

During 2022, the Company had restricted cash of $10.4 million at banks and reclamation deposits of $13.4 million with government agencies as cash collateral for reclamation obligations (see note 7).

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Note 16: Income Taxes

(a) The income tax provision consists of the following:

	December 31, 2022	December 31, 2021
Current income tax expense		
Current year	23,744	30,090
Assessments and adjustments	(5,384)	(515)
Total current income tax expense	18,360	29,575
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	16,350	(15,226)
Assessments and adjustments	4,987	1,103
Change in unrecognized deductible temporary differences	(18,607)	8,447
Total deferred income tax (recovery) expense	2,730	(5,676)
Total income tax expense	21,090	23,899

Composition of deferred income tax balances:

	December 31, 2022	December 31, 2021
Deferred income tax assets		
Future site restoration costs	79,974	98,581
Deferred private royalty	12,644	11,851
Finance lease	5,322	8,138
Other deferred income tax assets	7,700	12,779
Deferred tax assets not recognized	(79,974)	(98,581)
	25,666	32,768
Reclassification to deferred tax liabilities	(25,666)	(32,768)
Deferred income tax assets:	—	—
Deferred income tax liabilities		
Deferred mineral property costs	(10,006)	(2,715)
Property, plant and equipment	(61,752)	(65,760)
Other deferred tax liabilities	(4,668)	(10,809)
	(76,426)	(79,284)
Reclassification from deferred tax assets	25,666	32,768
Deferred income tax liabilities:	(50,760)	(46,516)
Net deferred income tax liabilities	(50,760)	(46,516)

Net deferred income tax liabilities:

	December 31, 2022	December 31, 2021
Balance at the beginning of the year (*note 4*)	(46,516)	(53,734)
Recognized in income	(2,730)	5,676
Recognized in other comprehensive income	(1,514)	(4,741)
Recognized in equity on acquisition of NCI	—	6,283
Balance at the end of the year	(50,760)	(46,516)

(b) Unrecognized deductible temporary differences:

	December 31, 2022	December 31, 2021
Deductible temporary differences – Income tax	232,212	292,874
Deductible temporary differences – Royalty tax	232,212	292,874
	464,424	585,748

(tabular amounts in thousands of United States dollars, except as otherwise noted)

(c) Reconciliation of effective tax rate

	December 31, 2022	December 31, 2021
Profit before taxes	95,987	42,963
Company's domestic tax rate (Canada statutory tax rate)	26.5%	26.5%
Expected income tax expense	25,437	11,385
Non-deductible (non-taxable) items	123	1,335
Northwest Territories mining royalty (net of income tax relief)	14,613	3,596
Earnings subject to tax different than statutory rate	(79)	1,041
Changes in unrecognized temporary differences	(18,607)	8,447
Assessments and adjustments	(397)	(735)
Tax effect on income (loss) allocated to non-controlling interest	—	(1,170)
Recorded income tax expense	21,090	23,899

Note 17: Trade and Other Payables

	December 31, 2022	December 31, 2021
Trade and other payables	15,745	7,071
Accrued expenses	29,863	20,294
Total trade and other payables	45,608	27,365

Note 18: Revenue

Disaggregated revenue information:

	December 31, 2022	December 31, 2021
Revenue streams:		
Rough diamond sales	493,840	291,022
Polished diamond sales	5	4,702
Total revenue	493,845	295,724

Note 19: Expenses by Nature

Expenses including cost of sales, selling and distribution expenses, general and administrative expenses and other expenses as reported in the combined statement of profit, have been grouped by nature of expenses as follows:

	December 31, 2022	December 31, 2021
Raw materials, consumables and spare parts	117,507	81,036
Salaries and employee benefits	73,311	54,741
Contractors and engineering services	74,217	55,113
Property tax and insurance costs	13,936	11,974
Depreciation and amortization	57,040	36,534
Exploration costs	3,634	2,118
Selling & distribution expenses	4,883	3,926
Impairment of assets	2,437	—
Other	8,184	4,107
Total expenses	355,149	249,549

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Note 20: Other Income

Other income for the year ended December 31, 2022, primarily consists of licensing fees received from customers using Canadamark trademark.

For the year ended December 31, 2021, other income primarily included government grants and loan forgiveness resulting from amendment to the 3L Loan.

(a) Government Grants

Government grants comprise amounts received by the Company from governments as reimbursement for costs incurred. Most of the government grants received directly by the Company related to compensation for labour costs incurred during the reporting year. Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them, if any, and that the grants will be received. Government grants related to reimbursement for labour costs are recognized in the Combined Statement of Profit under other income.

In the year ended December 31, 2021, the Company recognized $12.0 million of temporary wage subsidy from Canada Emergency Wage Subsidy (“CEWS”) program available to companies that have been negatively impacted by the COVID-19 pandemic.

The Company was entitled mainly to subsidies to compensate some of the labour costs under the condition that employee staff contracts should not be terminated as a result of declined profitability due to the COVID-19 pandemic.

There is no outstanding receivable or liability related to the government grants as at December 31, 2021.

(b) Loan forgiveness

The Company recognized $3.5 million gain resulting from amendment to the 3L Loan in the year ended December 31, 2021. See Note 11.

Note 21: Finance Expenses

	December 31, 2022	December 31, 2021
Interest on loans	22,003	21,007
Accretion of reclamation provision *(note 15)*	6,267	4,658
Interest on lease liabilities *(note 13)*	1,128	1,341
Financing expense on reclamation deposits	1,274	—
Other interest	3,210	2,655
Total finance expenses	33,882	29,661

Note 22: Changes in Liabilities arising from Financing Activities

	January 1, 2022	Cashflow [1]	Non-cash changes				December 31, 2022
			Additions	Foreign exchange	Finance expenses	Other	
1L loan	61,906	(61,906)	—	—	—	—	—
2L loan	106,536	—	—	—	13,954	—	120,490
3L loan	6,113	—	—	—	887	—	7,000
Lease obligations	24,621	(9,113)	—	(790)	1,058	—	15,776
Total	199,176	(71,019)	—	(790)	15,899	—	143,266

(1) *Lease cashflows include lease principal and lease interest payments.*

(tabular amounts in thousands of United States dollars, except as otherwise noted)

	February 3, 2021	Cashflow [1]	Non-cash changes				December 31, 2021
			Additions	Foreign exchange	Finance expenses	Other [2]	
1L loan	70,000	(8,094)	—	—	—	—	61,906
2L loan	10,000	85,000	—	—	11,536	—	106,536
3L loan	8,500	—	—	—	1,113	(3,500)	6,113
Lease obligations	17,019	(9,524)	15,904	(119)	1,341	—	24,621
Total	105,519	67,382	15,904	(119)	13,990	(3,500)	199,176

[1] *Lease cashflows include lease principal and lease interest payments.*
[2] *Amendment to the 3L Loan during the year.*

Note 23: Commitments and Guarantees

As at December 31, 2022, the Company had commitments that require the following minimum future payments, which are not accrued in the combined statement of financial position:

Contractual Obligations	Total	Less than 1 year	Year 2–3	Year 4–5	After 5 years
Participation agreements commitments *(a)*	42,007	3,498	6,995	6,995	24,519
Environmental agreements commitments (b)	222,262	140,221	76,055	1,300	4,686
Surface and mineral licenses	10,262	1,025	2,050	1,498	5,689
Equipment leases	18,776	3,129	9,388	6,259	—
Purchase commitments	97,504	82,482	15,022	—	—
Total contractual obligations	390,811	230,355	109,510	16,052	34,894

(a) Participation agreements

Ekati Diamond Mine has signed participation agreements with various aboriginal communities. Contractual obligations under these agreements amount to $42.0 million and are expected to contribute to the social, economic and cultural well-being of these communities.

(b) Environmental commitments

To meet the requirements under environmental and other agreements, the Company posted surety bonds and provided LCs for reclamation obligations for the Ekati Diamond Mine. These LCs are fully cash collateralized (refer to note 7).

In fiscal 2023, the Company is also required to make additional payments to cash collateralize the surety bonds. These payments will be made in six equal instalments of CDN$43.8 million per quarter to the second quarter of 2024, subject to maintenance at all times of minimum cash on hand of at least US$15.0 million.

		December 31, 2022	December 31, 2021
Surety bonds	CDN$	263,234	279,223
Letters of credit	CDN$	—	5,636
Total – CDN$		263,234	284,859
Total – USD$ equivalent		194,355	224,688

(c) Contingent liabilities

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims that arise due to the size, complexity and nature of the Company's operations. The outcome of such claims against the Company is not determinable at this time; however, their ultimate resolution is not expected to have a material adverse effect on the Company.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Note 24: Related Party Transactions

(a) Information about parent and subsidiaries

ACDH is the controlling owner of both ACDC Ltd. and ACDM N.V. Whereas, the controlling owners of ACDH are Polen Capital, Brigade and Western.

(b) Related party transactions

	Year ended December 31, 2022			
	Loan repayments	PIK interest capitalized	Interest paid	Amount owed to related parties
Brigade [1]	4,000	5,141	2,196	44,385
Polen Capital [1]	2,000	5,141	2,137	44,385
Western [1]	4,000	2,203	1,009	19,022
Total	10,000	12,485	5,342	107,792

[1] These related party transactions are with various funds that are managed by the above three entities.
[2] Refer to note 27 for related party transaction on February 13, 2023.

	Year ended December 31, 2021			
	Loan repayments	PIK interest capitalized	Interest paid	Amount owed to related parties
Brigade [1]	2,000	4,244	2,002	43,244
DDJ Capital [1]	1,000	4,244	1,840	41,244
Western [1]	2,000	1,819	1,042	20,819
Total	5,000	10,307	4,884	105,307

[1] These related party transactions are with various funds that are managed by the above three entities.

(c) Compensation of key management personnel

Key management includes directors (executive and non-executive) and members of the Executive Committee. The compensation paid or payable to key management for employee services is shown below:

	December 31, 2022	December 31, 2021
Short-term and post-employment benefits	2,511	2,976
Total	2,511	2,976

Compensation of key management personnel includes salaries and contributions to post-employment benefit plans.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

Note 25: Financial Instruments and Risk Management

(a) Financial Instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the combined statement of financial position are as follows:

	December 31, 2022		December 31, 2021	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets at amortized cost				
Cash and cash equivalents (1)	66,604	66,604	87,286	87,286
Trade and other receivables (1), (2)	886	886	3,741	3,741
Financial assets at fair value				
Restricted cash (3)	10,387	10,387	—	—
Reclamation deposits (3)	13,375	13,375	—	—
Total financial assets	91,252	91,252	91,027	91,027
Total current	67,490	67,490	91,027	91,027
Total non-current	23,762	23,762	—	—
Financial liabilities at amortized cost				
Trade and other payables (1)	45,608	45,608	27,365	27,365
Loans and borrowings – 1L Term loan	—	—	61,906	61,906
Loans and borrowings – 2L Term loan	125,403	120,490	106,536	106,536
Loans and borrowings – 3L Term loan	8,452	7,000	6,113	6,113
Financial liabilities at fair value				
Consideration payable	50,133	50,133	44,719	44,719
Total financial liabilities	229,596	223,231	246,639	246,639
Total current	60,489	60,489	79,586	79,586
Total non-current	169,107	162,742	167,053	167,053

(1) *The fair value of these financial instruments approximates their carrying value due to the short term to maturity.*
(2) *Excludes sales tax credits receivable (see note 9).*
(3) *Restricted cash and reclamation deposits are classified as non-current assets (see note 7).*

All financial assets and liabilities measured at amortized cost are classified as Level 2 measurements.

(i) Measurement of fair value

Loans and borrowing

The 1L, 2L and 3L Term loans are classified as Level 2 fair value measurement. These loans approximated their carrying value at December 31, 2021, due to the loans being originated within 2021 and there were no substantive changes in the Company's credit risk since the loans were originated through to December 31, 2021.

As at December 31, 2022, fair value of 2L and 3L Term loans was calculated with a net present value model using discount rates derived from quoted yields of debt with similar maturity and credit rating that is traded in active markets.

Consideration payable

Consideration payable is classified as Level 3 fair value measurement. The fair value of consideration payable was determined by using the discounted cash flow model in which the present value of future royalty distributions was calculated using a pre-tax discount rate.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

The future cashflows of consideration payable may be different from the amounts presented in the table above as discount rates, diamond pricing or other relevant conditions underlying the consideration change.

(ii) Sensitivity analysis

For the fair value of consideration payable, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	Profit or loss	
	Increase	Decrease
December 31, 2022		
Expected cash flows (10% movement)	(4,771)	4,771
Discount rate (1% movement)	1,000	(1,000)

During the years ended December 31, 2022, and December 31, 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

(b) Risk Management Overview

The Company has exposure to the following risks arising from financial instruments:

- Market risk: currency and interest rate risk
- Financial risk: credit and liquidity risk

The Company's overall financial risk management program focuses on the preservation of capital and protecting current and future Company assets and cash flows by minimizing exposure to risks posed by the uncertainties and volatilities of financial markets. The Company's Board of Directors has responsibility to review and discuss significant financial risks or exposures and to assess the steps management has taken to monitor, control, report and mitigate such risks to the Company. Financial risk management is carried out by the finance department, which identifies and evaluates financial risks and establishes controls and procedures to ensure financial risks are mitigated.

(i) Currency risk management

The Company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of the Company. The functional currency of the Company is the US dollar. Purchases are primarily denominated in Canadian dollars and sales and borrowings are primarily denominated in US dollars. The current risk management policy is to monitor the foreign exchange rate and purchase at spot rate before the settlement of liabilities.

Based on the Company's net exposure to Canadian dollar monetary assets and liabilities as at December 31, 2022, a one-cent change in the exchange rate would have impacted pre-tax profit for the year by $0.1 million (December 31, 2021 - $0.1 million).

Interest rate risk management

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company has borrowings that incur interest at fixed and floating rates. The Company's fixed rate borrowings comprise loans which incurs interest at fixed interest rates. The Company also has exposure to interest rate risk arising from its 1L loan, which bears variable interest based on LIBOR (see note 11 for further details). As at December 31, 2022 the Company has no exposure to floating interest rates, whereas as at December 31, 2021 the impact of 100 basis point change on the 1L Loan would impact pre-tax profit for the year by $0.6 million.

(tabular amounts in thousands of United States dollars, except as otherwise noted)

(ii) Credit risk management

Credit risk is the risk of a financial loss to the Company if a customer or counterparty in a transaction fails to meet its contractual obligation. The Company adopts a sales policy which requires receipt of cash prior to the delivery of rough diamonds to its customers and an investing policy to invest with major financial institutions. As a result, the Company's exposure to credit risk arising from diamond sales is minimal. As of December 31, 2022, the Company has significant sales tax receivables due from Canadian Revenue Agency and as such has minimal credit risk exposure.

The Company's cash is deemed low risk as it's invested in short-dated money market securities and bank accounts held at investment grade financial institutions. The financial institutions are medium credit quality or higher operating in low-geopolitical risk jurisdictions, including Canada, Belgium, and the United States.

As at December 31, 2022, the Company's maximum counterparty credit exposure consists of the carrying amount of cash and accounts receivable.

(iii) Liquidity and capital risk management

The Company's capital includes cash, current and non-current borrowings and net parent investment.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company manages its liquidity by ensuring that there is sufficient capital to meet short-term and long-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company also strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances. The Company's capital includes cash, current and non-current borrowings and net parent investment. The Company is required to be in compliance with the required debt covenants under its loan agreements (see note 11).

Management applies judgement when forecasting cash flows for its current and subsequent fiscal years to predict future financing requirements by managing sales, monitoring operating and capital expenditures, and obtaining alternative financing arrangement for short term cash needs. As at December 31, 2022, management's forecasted cash flows indicated that the Company required an alternative short-term financing arrangement to fund its operations for the year ended December 31, 2023. During February 2023, the Company received new 1L loan financing that will enable the Company to meet its commitments for the next twelve months. (refer to note 27). The need for additional funding arises primarily due to the cash collateralization for surety bonds (refer to note 23 (b)).

The following table summarizes the aggregate amount of expected remaining contractual cash flow requirements for the Company's financial liabilities based on repayment or maturity periods.

	Total	*Less than 1 year*	*Year 2-3*	*Year 4-5*	*After 5 years*
Trade and other payables	45,608	45,608	—	—	—
Lease liabilities	16,917	10,263	5,809	672	173
Consideration payable	62,186	9,911	32,339	12,776	7,160
2L loan - principal and PIK	224,378	—	—	224,378	—
2L loan - interest payments	42,424	6,515	15,733	20,176	—
3L loan - principal and PIK	21,317	—	—	—	21,317

The future cash flows of consideration payable may be different from the amounts in the table above as diamond production, pricing or other relevant conditions underlying the consideration payable change.

Note 26: Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements and have been applied consistently by the Company.

(a) Basis of combination and consolidation

The combined financial statements comprise the financial statements of the ACDC Ltd. and ACDM N.V. They are prepared for the same reporting period using consistent accounting policies. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions of the combined entities are eliminated in full on consolidation and combination.

The net assets and net earnings attributable to minority shareholders are presented as non-controlling interests within the combined financial statements. NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the interest in the subsidiary that do not result in a loss of control are accounted for as equity transactions. The Company has a 78.4% controlling ownership interest in the Lac de Gras Joint Venture and minority shareholders are presented as non-controlling interest (21.6%) in the combined financial statements.

(b) Business combination

Acquisitions of businesses are accounted for using the acquisition method whereby all identifiable assets and liabilities are recorded at their fair value as at the date of acquisition with limited exceptions. Any excess purchase price over the aggregate fair value of identifiable net assets is recorded as goodwill. Acquisition related costs are expensed as incurred and are included in the combined statement of profit. Estimates of future cash flows, forecast prices, interest rates and discount rates are made in determining the fair value of assets acquired and liabilities assumed. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, intangible assets and goodwill in the purchase price equation.

(c) Property, plant and equipment

(i) EXPLORATION AND EVALUATION EXPENDITURES

Exploration and evaluation activities include: acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching and sampling; and activities involved in evaluating the technical feasibility and commercial viability of extracting mineral resources. Exploration and evaluation costs are expensed as incurred. They are only capitalized when the Company concludes that there is evidence to support probability of generating positive economic returns in the future. A mineral resource is considered to have economic potential when it is expected that the technical feasibility and commercial viability of extracting the mineral resource can be demonstrated and the future economic benefits are probable.

In making this determination, the extent of exploration, as well as the degree of confidence in the mineral resource, is considered. Capitalized exploration and evaluation expenditures are recorded as a component of property, plant and equipment. Recognized exploration and evaluation assets will be assessed for impairment when specific facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Once development is sanctioned, any capitalized exploration and evaluation costs are tested for impairment and reclassified to mineral property assets within property, plant and equipment. All subsequent development expenditure is capitalized, net of any proceeds from pre-production sales.

(ii) COMMENCEMENT OF COMMERCIAL PRODUCTION

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

- all major capital expenditures have been completed to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management;
- mineral recoveries are at or near expected production levels; and
- the ability exists to sustain ongoing production of ore.

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

(iii) PP&E COST

Items of PP&E are measured at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price and construction cost, any costs directly attributable to bringing the asset into operation including stripping costs incurred in open pit development before production commences, the initial estimate of the site restoration obligation and, borrowing costs for qualifying assets. Repair and maintenance costs are expensed as incurred. When parts of an item of PP&E have different useful lives, the parts are accounted for as separate items (major components) of property, plant and equipment.

(iv) DEPRECIATION AND AMORTIZATION

Assets under construction are not depreciated until these assets are ready for their intended use. The unit-of-production method is applied to a substantial portion of the Ekati Diamond Mine property, plant and equipment. Depending on the asset, it is based on either tonnes of material processed or carats of diamonds recovered during the period relative to the estimated proven and probable ore reserves of the ore deposit being mined, or to the total ore deposit. Other property, plant and equipment is depreciated using the straight-line method over the estimated useful lives of the related assets which are as follows:

Asset	***Estimated useful life (years)***
Buildings	Up to 15
Machinery and mobile equipment	2–15
Computer equipment and software	3–6
Furniture, fixtures and equipment	2–10
Leasehold and building improvements	Up to 15
Right-of-use assets	Lease term or life of the asset

The estimation of mineral reserves is a subjective process. The Company estimates its mineral reserves based on information compiled by an appropriately qualified person. Forecasts are based on engineering data, projected future rates of production and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of additional future drilling, testing or production levels and on diamond prices. Changes in reserve estimates may impact the carrying value of exploration and evaluation assets, mineral properties, property, plant and equipment, mine rehabilitation and site restoration provisions, recognition of deferred tax assets, and depreciation charges. Estimates and assumptions about future events and circumstances are also used to determine whether economically viable reserves exist that can lead to commercial development of an ore body.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. The impact of changes to the estimated useful lives or residual values is accounted for prospectively.

(v) STRIPPING COSTS

Mining costs associated with stripping activities in an open pit mine are expensed unless the stripping activity can be shown to represent a betterment to the mineral property, in which case the stripping costs would be capitalized and included in deferred mineral property costs within mining assets.

When the benefit from the stripping activity is realized in the current period, the stripping costs are accounted for as the cost of inventory. When the benefit is the improved access to ore in future periods, the costs are recognized as a mineral property asset – if improved access to the ore body is probable, the component of the ore body can be accurately identified, and the cost associated with improving the access can be reliably measured. If these conditions are not met, the costs are expensed to the combined statement of operations as incurred. After initial recognition, the stripping activity asset is depreciated on a systematic basis (unit-of-production method) over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity.

(vi) MAJOR MAINTENANCE AND REPAIRS

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. When an asset, or part of an asset that was separately depreciated, is replaced and it is probable that future economic benefits associated with the new asset will flow to the Company through an extended life, the expenditure is capitalized. The unamortized value of the existing asset or part of the existing asset that is being replaced is expensed. Where part of the existing asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced asset, which is immediately written off. All other day-to-day maintenance costs are expensed as incurred.

(d) Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets other than inventory and deferred taxes are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

IMPAIRMENT INDICATOR

Determining whether there are any indications of impairment requires significant judgment of external factors, such as customer turnover, marketing supply and demand, change in discount and foreign exchange rates, a significant decline in an asset's market value and significant changes in the technological, market, economic or legal environment that would have an adverse impact on the Company's cash generating unit (“CGU”). For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, referred to as a CGU. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the asset is tested as part of a CGU.

RECOVERABLE AMOUNT

The recoverable amount of an asset is the greater of its fair value less cost of disposal (“FVLCD”) and its value in use. In the absence of a binding sales agreement, fair value is estimated on the basis of values obtained from an active market or from recent transactions or on the basis of the best information available that reflects the amount that the Company could obtain from the disposal of the asset.

FVLCD is estimated by using the discounted future after-tax cash flows expected to be derived from the CGU, less an estimated amount for cost to dispose. The determination of FVLCD for each CGU are considered to be Level 3 of the fair value measurements, as they are derived from valuation techniques that include inputs that are not based on observable market data. When discounting estimated future after-tax cash flows, the Company uses an after-tax discount rate which reflects the risks specific to the CGU. Estimated cash flows are based on expected future production, expected selling prices, expected operating costs and expected capital expenditures. Value in use is defined as the present value of future pre-tax cash flows expected to be derived from the use of an asset, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Expected rough diamond production levels, which comprise proven and probable reserves and an estimate of the recoverable amount of resources, are used to estimate expected future cash flows. Expected future rough diamond prices are estimated based on realized prices for rough diamonds sold during the Company's most recent sale, geological data regarding the quality of rough diamonds in reserves and resources and expected future levels of worldwide diamond production. Future operating and capital costs, including labour and fuel costs, are based on the most recently approved life of mine plan, which is reviewed and approved annually by senior management and the Board of Directors. The assessment also requires estimates and assumptions related to foreign exchange rates and discount rates, which are determined based on prevailing market conditions at the date of the assessment. Where applicable, assumptions are aligned with the Company's most recent economic analysis of mineral reserves and resources. Financial results as determined by actual events could differ from those estimated, and changes in these estimates that decrease the estimated recoverable amount of the CGU could affect the carrying amounts of assets and result in an impairment charge.

IMPAIRMENT LOSS

When the recoverable amount of a CGU is less than the carrying amount of that CGU, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to that CGU, and then to the other assets of that CGU pro rata on the basis of the carrying amount of each asset in the CGU. Any impairment loss is recognized directly in the combined statement of profit in those expense categories consistent with the function of the impaired asset. Impairment losses for property, plant and equipment and intangible assets are reversed if there has been a change in the estimates used to determine an asset's recoverable amount since the last impairment loss was recognized, and it has been determined that the asset is no longer impaired or that impairment has decreased. The reversal is recognized in earnings before income taxes in the period in which the reversal occurred and is limited to the carrying value less any subsequent depreciation that would have been determined had no impairment charge been recognized in prior years.

(e) Inventory and supplies

Inventory is recorded at the lower of cost and net realizable value. Cost of rough diamond inventory, supply inventory and stockpile ore inventory are determined on a weighted average cost basis. Cost of items that are not ordinarily interchangeable, and goods and services produced and segregated for specific projects, are assigned by using a specific identification of their individual costs.

Stockpiled ore represents coarse ore that has been extracted from the mine and is stored for future processing. Stockpiled ore value is based on the costs incurred (including depreciation and amortization) in bringing the ore to the stockpile.

Net realizable value is the estimated selling price for the final product. The measurement of inventory, including the determination of its net realizable value, involves the use of estimates. The significant sources of estimation uncertainty include diamond prices, production grade and expenditure, and determining the remaining costs of completion to bring inventory into its saleable form. The Company uses historical data on prices achieved, grade and expenditure in forming its assessment.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and short-term money market instruments (with a maturity on acquisition of less than 90 days) and excludes restricted cash.

(g) Restricted cash

Cash which is subject to legal or contractual restrictions on its use and is classified separately as restricted cash.

(h) Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

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

(i) the contract involves the use of an identified asset that may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

(ii) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(iii) the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

- the Company has the right to operate the asset; or
- the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

The Company presents right-of-use assets that do not meet the definition of investment property in “property, plant and equipment” in the statement of financial position.

(i) SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets being those assets with a fair value of less than US$5,000 when new. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(i) Employee pension plans

The Company operates various pension plans. The plans are generally funded through payments to insurance companies or trustee-administered funds determined by periodic actuarial calculations. The Company has both defined benefit and defined contribution plans.

DEFINED CONTRIBUTION PLAN

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

DEFINED BENEFIT PLAN

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in income. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis including discount rate, life expectancy and expected return on plan assets. The assumptions are reviewed each year and are adjusted where necessary to reflect changes in fund experience and actuarial recommendations. Any changes in these assumptions will impact the carrying amount of the pension obligation.

(j) Provisions

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense relating to any provision is included in net profit or loss. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in net profit or loss.

Significant judgments and estimates are involved in forming expectations of future site closure and reclamation activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements. The Ekati Diamond Mine rehabilitation and site restoration provision is prepared by management at the Ekati Diamond Mine.

(k) Income taxes

Income tax expense comprises current and deferred tax and is recognized in net profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity or in other comprehensive income. Income tax expense includes mining royalty taxes that the owner or operator of a mine shall pay to the Government of the Northwest Territories royalties (“Royalty Tax”) on the value of the mine’s output during that fiscal year.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax expense is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax expense is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is probable that the related tax benefit will not be realized. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The Company classifies foreign exchange differences on deferred tax assets or liabilities in jurisdictions where the functional currency is different from the currency used for tax purposes as income tax expense. The unrealized foreign exchange gain or loss related to deferred income tax asset and liability is recorded as part of deferred tax expense or recovery for each year.

Judgment is required in determining whether deferred tax assets are recognized in the combined statement of financial position. Deferred tax assets, including those arising from unused tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted income from operations and the application of existing tax laws in each jurisdiction. To the extent that future taxable income differs significantly from estimates, the ability of the Company to realize the deferred tax assets recorded at the combined statement of financial position date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(l) Revenue

The Company is principally engaged in the business of producing diamonds and earns revenue predominantly through the sale of rough diamonds. Diamond sales to customers generally include one performance obligation. Revenue from contracts with customers is recognized at a point of time when control of the diamonds is transferred to the customer and selling prices are known, generally on delivery of the diamonds. Sales are measured at the fair value of the consideration received. The Company’s sales policy requires receipt of cash prior to delivery of rough diamonds to customers. The Company has generally concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer. There is no return policy, as all diamond sales are final.

(m) Commitments and contingencies

Provisions and liabilities for legal and other contingent matters are recognized in the period when the circumstance becomes probable that a future cash outflow resulting from past operations or events will occur and the amount of the cash outflow can be reasonably estimated. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change, and the carrying amounts of provisions and liabilities are reviewed regularly and adjusted accordingly. The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine if the loss can be reasonably estimated. When a loss is recognized, it is charged to net income. The Company continually monitors known and potential contingent matters and makes appropriate disclosure and provisions when warranted by the circumstances present. Contingent assets are not recognized in financial statements. However, when the realization of income is virtually certain, then the related asset is recognized.

(n) Financial instruments

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial assets and liabilities are not offset unless there is a current legal enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

The Company's financial instruments include cash and cash equivalents, restricted cash, trade and other receivables, reclamation deposits, trade and other payables, consideration payable and loans and borrowings.

CLASSIFICATION

Financial assets are classified in one of the following categories: amortised cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"). Financial liabilities are classified as measured at amortized cost or FVTPL. Classification of financial instruments in the Company's financial statements depends on the purpose for which the financial instruments were acquired or incurred. The classification of financial instruments is determined at initial recognition. The Company does not have financial instruments classified as FVTOCI or FVTPL.

MEASUREMENT

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities measured at FVTPL are recognized immediately in profit or loss.

Subsequently, financial instruments measured at amortized cost are measured using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

IMPAIRMENT

A loss allowance for expected credit losses is recognized on a financial asset that is measured at amortized cost and FVTOCI. The loss allowance for a financial asset measured at amortized cost and FVTOCI is recognized in profit or loss as an impairment gain or loss. At each reporting date, the loss allowance for a financial instrument should be measured at the amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the loss allowance should be measured at the amount equal to 12-month expected credit losses. The loss allowance should always be measured at the amount equal to lifetime expected credit losses for trade receivables not containing a significant financing component.

DERECOGNITION

A financial asset is derecognized when:

- the contractual right to the cash flows from the financial asset expire; or
- the Company transfers the contractual rights to receive the cash flows of the financial asset and transfers substantially all the risks and rewards of ownership of the financial asset.

A financial liability is derecognized when the liability is extinguished, discharged, cancelled or expires.

(o) Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described below. The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: The fair value measurements are classified as Level 1 if the fair value is determined using quoted, unadjusted market prices for identical assets or liabilities.
- Level 2: The fair value measurements are classified as Level 2 when inputs other than quoted prices in Level 1 which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: The fair value measurements are classified as Level 3 when inputs require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs.

(p) Foreign currency

Functional currency is the currency of the primary economic environment in which the Company and its subsidiaries operate and is normally the currency in which the entity primarily generates and expends cash. Determination of functional currency requires judgements. Monetary assets and liabilities denominated in foreign currencies are translated to US dollars at exchange rates in effect at the statement of financial position date, and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in net profit or loss.

Note 27: Subsequent events

(a) Cash collateral payments for replacement LCs

On January 3, 2023, the Company paid additional security of CDN$5.2 million to cash collateralize new LCs. These LCs were issued to replace cash collateralized LCs secured under the 1L Loan of CDN$5.2 million. Upon replacement of the LCs issued under the 1L Loan, the Company was repaid CDN$3.4 million of the CDN$5.2 million that was cash collateralized for LCs issued under the 1L Loan.

(b) New 1L loan financing

During February 2023, the Company received new 1L loan financing of $30.0 million from a syndicate of investment funds represented by Brigade and Polen Capital. The new 1L loan financing has a maturity date of December 31, 2023, with interest rate of 12%. The Company believes that the new loan financing and cash flows generated from operations are sufficient to enable the Company to meet its commitments for the next twelve months.