CONSTELLATION BRANDS, INC.
Form 424B2
August 07, 2012

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CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Aggregate offering price	Amount of registration fee(1)
Debt Securities and Guarantees thereof	$650,000,000	$74,490.00

(1) Calculated in accordance with Rule 457(r) if the Securities Act of 1933, as amended (the Securities Act).

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Filed Pursuant to Rule 424(b)(2)
Registration No. 333-179266

PROSPECTUS SUPPLEMENT

(To Prospectus Dated August 6, 2012)

$650,000,000

4.625% Senior Notes due 2023

The Company:

We are the world s leading premium wine company with a broad portfolio of consumer-preferred premium wine brands complemented by premium spirits, imported beer and other select beverage alcohol products.

The Offering:

Use of Proceeds: We intend to use the net proceeds from this offering of the Senior Notes due 2023, which we refer to as the notes, together with additional borrowings under our senior credit facility and available cash, to finance our pending acquisition of the 50% membership interest in Crown Imports LLC not already owned by us, which we refer to as the Crown Acquisition, or, if we are unable to finance the entire Crown Acquisition, towards the purchase of at least one-half of the 50% membership interest we do not already own, which we refer to as the Alternate Crown Acquisition. The facilities under our senior credit agreement, as amended, refinanced, extended, substituted, replaced or renewed from time to time, are referred to collectively as our senior credit facility.

The Notes:

Issuer: Constellation Brands, Inc.

Maturity: The notes will mature on March 1, 2023.

Interest Payments: The notes will pay interest semi-annually in cash in arrears on March 1 and September 1 of each year, commencing March 1, 2013.

Guarantees: Certain of our existing and future subsidiaries will guarantee the notes on a senior unsecured basis to the extent and for so long as such entities guarantee our senior credit facility.

Ranking: The notes will rank equally in right of payment with all of our existing and future unsecured senior indebtedness, senior in right of payment to any indebtedness that is expressly subordinated to the notes, and effectively subordinated in right of payment to our secured indebtedness to the extent of the value

of the assets securing such indebtedness, including all borrowings under our senior credit facility.

Optional Redemption: The notes may be redeemed, in whole or in part at a price equal to 100% of the principal amount thereof, together with accrued and unpaid interest to the redemption date, plus a make-whole premium.

Escrow Arrangement/Special Mandatory Redemption: An amount equal to the aggregate public offering price of the notes will be placed in an escrow account. The escrowed funds will be released to fund a portion of the Crown Acquisition or the Alternate Crown Acquisition. If, however, the Membership Interest Purchase Agreement relating to the Crown Acquisition is terminated and the transactions contemplated thereby are abandoned or if neither the Crown Acquisition nor the Alternate Crown Acquisition has been consummated on or prior to December 30, 2013, all of the notes will be redeemed at a price equal to 100% of the aggregate public offering price thereof, together with accrued and unpaid interest (and, if applicable, the accreted portion of any original issue discount) to the date of the special mandatory redemption. We will not prefund interest or original issue discount that may accrete on the notes into the escrow account.

Change of Control: If we experience specific kinds of changes of control, we must offer to repurchase all of the notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

This investment involves risks. See Risk Factors beginning on page S-11.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Senior Note	Total
Public Offering Price [(1)]	100.00%	$650,000,000
Underwriting Discount	1.25%	$ 8,125,000
Proceeds to Constellation Brands (before expenses)	98.75%	$641,875,000

(1) Plus accrued interest from August 14, 2012.

The notes will be ready for delivery in book-entry form only through The Depository Trust Company on or about August 14, 2012.

Joint Book Running Managers

BofA Merrill Lynch

J.P. Morgan

Rabo Securities

Barclays

Wells Fargo Securities

Co-Managers

HSBC

Mitsubishi UFJ Securities

August 6, 2012

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or documents to which we otherwise refer you. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information appearing in this prospectus supplement, the accompanying prospectus and any document incorporated by reference is accurate as of any date other than the date on the front cover of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

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Unless otherwise indicated or the context requires otherwise, references to we, us, our and the Company refer collectively to Constellation Brands, Inc. and its subsidiaries except that in the sections entitled Prospectus Supplement Summary The Offering and Description of the Notes and the Guarantees such terms refer only to Constellation Brands, Inc. and not any of its subsidiaries.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. You may read and copy any document we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain further information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public over the Internet at the SEC s website at http://www.sec.gov. Our class A and class B common stock are listed on the New York Stock Exchange, and you may inspect our SEC filings at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The SEC allows us to incorporate by reference into this prospectus supplement the information we file with the SEC, which means that we can disclose important information to you by referring you to previously filed documents. The information incorporated by reference is considered to be part of this prospectus supplement, unless we update or supersede that information by the information contained in this prospectus supplement or by information that we file subsequently that is incorporated by reference into this prospectus supplement.

We incorporate by reference into this prospectus supplement the following documents or information filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with SEC rules):

- Annual Report on Form 10-K for the fiscal year ended February 29, 2012 filed on April 30, 2012;

- Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2012 filed on July 10, 2012;

- Current Reports on Form 8-K filed on April 5, 2012 (of the two reports filed on that date, only the one reporting information under Items 5.02 and 9.01); April 16, 2012; April 23, 2012; May 9, 2012; July 2, 2012 (Items 1.01, 2.03 and 9.01 only (but excluding Exhibit 99.1)); and July 31, 2012;

- The description of our class A common stock, par value $.01 per share, and class B common stock, par value $.01 per share, contained in Item 1 of our registration statement on Form 8-A filed on October 4, 1999; and

- All documents filed by the Company under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, on or after the date of this prospectus supplement and before the termination of this offering.

This prospectus supplement and the accompanying prospectus are part of a registration statement we have filed with the SEC relating to the notes offered by this prospectus supplement and other securities. As permitted by SEC rules, this prospectus supplement and the accompanying prospectus do not contain all of the information included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, the exhibits and schedules for more information about us and our debt securities. The registration statement, exhibits and schedules are also available at the SEC s Public Reference Room or through its website. In addition, we post the periodic reports that we file with the SEC on our website at http://www.cbrands.com. You may also obtain a copy of these filings, at no cost, by writing to or telephoning us at the following address:

Constellation Brands, Inc.

207 High Point Drive, Building 100

Victor, New York 14564

585-678-7100

Attention: David S. Sorce, Secretary

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference herein contain forward-looking statements that involve risks and uncertainties, including those discussed under the caption Risk Factors. We develop forward-looking statements by combining currently available information with our beliefs and assumptions. These statements relate to future events, including our future performance, and often contain words such as may, should, could, expects, seeks to, anticipates, plans, b estimates, intends, predicts, projects, potential or continue or the negative of such terms and other comparable terminology. Forward-look statements are inherently uncertain, and actual performance or results may differ materially and adversely from that expressed in, or implied by, any such statements. Consequently, you should recognize these statements for what they are and we caution you not to rely upon them as facts.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information about the Company and this offering. It does not contain all of the information that may be important to you in deciding whether to purchase notes. We encourage you to read the entire prospectus supplement, the accompanying prospectus and the documents that we have filed with the SEC that are incorporated by reference prior to deciding whether to purchase notes.

Constellation Brands, Inc.

We are the world s leading premium wine company with a leading market position in both of our primary markets, which are the United States (U.S.) and Canada. Our wine portfolio is complemented by select premium spirits brands and other select beverage alcohol products. We are also the leading marketer of imported beer in the U.S. through our investment in Crown Imports LLC, which we refer to below as Crown, a 50/50 joint venture with Grupo Modelo, S.A.B. de C.V., pursuant to which Grupo Modelo s Mexican beer portfolio is imported, marketed and sold by Crown in the U.S. As described below under Recent Developments The Crown Acquisition, we signed a definitive agreement to acquire the remaining equity interest in Crown not already owned by us for approximately $1.85 billion.

Since our founding in 1945 as a producer and marketer of wine products, we have grown through a combination of internal growth and acquisitions. Our internal growth has been driven by leveraging our existing portfolio of leading brands, developing new products, new packaging and line extensions, and focusing on the faster growing sectors of the beverage alcohol industry. We conduct our business through entities we wholly own as well as a variety of joint ventures with various other entities, both within and outside the U.S.

Corporate Information

Our principal executive offices are located at 207 High Point Drive, Building 100, Victor, New York 14564 and our telephone number is 585-678-7100. We maintain a website at www.cbrands.com. Our website and the information contained on that site, or connected to that site, are not incorporated into this prospectus, and you should not rely on any such information in making your decision whether to purchase the notes. We are a Delaware corporation that was incorporated on December 4, 1972, as the successor to a business founded in 1945. On September 19, 2000, we changed our name to Constellation Brands, Inc. from Canandaigua Brands, Inc.

Recent Developments

The Crown Acquisition

On June 28, 2012, we entered into a Membership Interest Purchase Agreement, which we refer to as the Membership Interest Purchase Agreement, to acquire the 50% equity interest in Crown not already owned by us, which we refer to as the Crown Acquisition. The consummation of the Crown Acquisition is conditioned on the consummation of the acquisition of Grupo Modelo by Anheuser-Busch InBev. Crown has the exclusive right to import, market and sell primarily Grupo Modelo s Mexican beer portfolio in the 50 states of the U.S., the District of Columbia and Guam. The Crown portfolio of brands includes Corona Extra, the best-selling imported beer and the sixth best-selling beer overall in the industry; Corona Light, the leading imported light beer; and Modelo Especial, the third largest and one of the fastest growing major imported beer brands. The pending acquisition of Crown will position the Company as the largest multi-category supplier of beverage alcohol in the U.S.

We currently expect to complete the Crown Acquisition, subject to satisfaction of limited closing conditions, in the first quarter of calendar 2013. We cannot guarantee, however, that the Crown Acquisition will be completed upon the agreed upon terms, or at all.

If we are unable to obtain financing sufficient to enable us to pay the purchase price for the entire 50% membership interest in Crown not already owned by us, then pursuant to the terms of the Membership Interest Purchase Agreement, we must purchase at least one-half of such 50% membership interest (the Alternate Crown Acquisition) for a pro-rated purchase price plus a fee of $150.0 million payable to the seller.

An amount equal to the aggregate public offering price of the notes will be placed in an escrow account, which account will be pledged to the trustee for the benefit of the holders of the notes for so long as the proceeds remain in escrow. The escrowed funds will be used to fund a portion of the Crown Acquisition or the Alternate Crown Acquisition. If, however, the Membership Interest Purchase Agreement is terminated and the transactions contemplated thereby are abandoned or if neither the Crown Acquisition nor the Alternate Crown Acquisition has been consummated on or prior to December 30, 2013, we will be required to redeem all of the notes at a redemption price equal to 100% of their aggregate public offering price, plus accrued and unpaid interest (and, if applicable, the accreted portion of any original issue discount) to the date of the special mandatory redemption. See Description of the Notes and the Guarantees Escrow of Proceeds; Release Conditions and Description of the Notes and the Guarantees Special Mandatory Redemption.

Financing Arrangements for the Crown Acquisition

We expect the sources of permanent financing for the Crown Acquisition to consist of:

- the proceeds from the sale of the notes in this offering;
- a $575.0 million incremental term loan under our senior credit facility; and
- borrowings under our revolving facility under our senior credit facility and/or cash on hand (however, as adjusted information in this prospectus supplement assumes a $650.0 million borrowing under our revolving facility).

We are currently pursuing an amendment and restatement of our senior credit facility to establish a committed $575.0 million delayed draw incremental term loan facility maturing in 2017 and amortizing in annual amounts of 5% to 10% prior to maturity to fund a portion of the Crown Acquisition. The terms of an amendment and restatement of our senior credit facility have not been finalized. Accordingly, there can be no assurance that we will enter into an amendment and restatement of our senior credit facility on the terms described above or at all. However, it is a condition to our obligation to issue the notes that prior to the issue date of the notes our senior credit facility is amended to permit the liens on the escrowed funds securing the notes.

To provide certainty of financing to fund the Crown Acquisition in the event the anticipated sources of funds for the Crown Acquisition are unavailable for any reason, we have entered into an interim loan agreement (or bridge facility) with affiliates of the underwriters. The bridge facility provides for aggregate credit facilities of $1.875 billion. These loans may be borrowed, if at all, only in connection with the closing of the Crown Acquisition. We expect to borrow under the bridge facility only if any or all of the anticipated permanent financing is not available for any reason and we are unable to replace such anticipated financing with alternate financing or available cash resources.

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The Offering

A brief description of the material terms of the offering follows. For a more complete description of the notes offered hereby, see Description of the Notes and the Guarantees in this prospectus supplement and Description of Debt Securities in the accompanying prospectus.

Issuer	Constellation Brands, Inc.
Subsidiary Guarantors	The notes will be guaranteed by our subsidiaries that are guarantors under our senior credit facility.
Securities Offered	$650,000,000 aggregate principal amount of 4.625% Senior Notes due 2023.
Maturity	The notes will mature on March 1, 2023.
Interest	Interest on the notes will accrue from August 14, 2012 and will be payable on March 1 and September 1 of each year, beginning March 1, 2013.
Ranking	Except as described below under Escrow of Proceeds, the notes will be our senior unsecured obligations and will rank equally with all of our other senior unsecured indebtedness and will be effectively subordinated to the indebtedness outstanding under our senior credit facility from time to time and any other secured debt we may incur to the extent of the value of the assets securing such debt. The notes will be fully and unconditionally guaranteed on a senior basis, jointly and severally, by the subsidiaries that are guarantors under our senior credit facility, subject to release provisions described below. Each guarantee will be effectively subordinated to any secured obligations of the subsidiary guarantors to the extent of the value of the assets securing such debt. The notes will also be structurally subordinated to all indebtedness and other liabilities of our subsidiaries that do not guarantee the notes.
	As of May 31, 2012, as adjusted to give effect to the issuance of the notes and the incurrence of additional senior secured financing in the aggregate amount of approximately $1.2 billion in connection with the Crown Acquisition, we would have had approximately (i) $5.3 billion aggregate principal amount of senior indebtedness outstanding, of which approximately $2.1 billion was secured (excluding the security interest in the proceeds of the sale of the notes held in escrow) and (ii) $160.4 million of available undrawn revolving commitments under the revolving portion of our senior credit facility (after giving effect to $650.0 million of assumed borrowings under our revolving facility to fund a portion of the Crown Acquisition). The guarantee of a subsidiary guarantor will be released to the extent such subsidiary guarantor is released as a guarantor under our senior credit facility or the facility (or a successor thereto) is amended, refinanced, extended, substituted, replaced or renewed without such subsidiary guarantor being a guarantor of the indebtedness thereunder, or if our senior credit facility is otherwise terminated or the requirements for legal or covenant defeasance or to discharge the indenture have been met.

Optional Redemption	We may, at our option, redeem some or all of the notes at any time at a redemption price equal to the greater of 100% of the principal amount of the notes being redeemed; and the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed (excluding interest accrued to the redemption date) from the redemption date to the maturity date discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury Rate (as defined in this prospectus supplement) plus 50 basis points. We will also pay the accrued and unpaid interest on the notes to the redemption date.
Escrow of Proceeds	An amount equal to the aggregate public offering price of the notes will be placed in an escrow account, which account will be pledged to the trustee for the benefit of the holders of the notes for so long as the proceeds remain in escrow. The escrowed funds will be used to fund a portion of the Crown Acquisition or the Alternate Crown Acquisition. See Description of the Notes and the Guarantees Escrow of Proceeds; Release Conditions.
Special Mandatory Redemption	If the Membership Interest Purchase Agreement is terminated and the transactions contemplated thereby are abandoned or if neither the Crown Acquisition nor the Alternate Crown Acquisition has been consummated or on prior to December 30, 2013, we will be required to redeem all of the notes at a redemption price equal to 100% of their aggregate public offering price, plus accrued and unpaid interest (and, if applicable, the accreted portion of any original issue discount) to the date of the special mandatory redemption. See Description of the Notes and the Guarantees Special Mandatory Redemption.
Repurchase at the Option of Holders Upon A Change of Control	If we experience a change of control (as defined in this prospectus supplement), we must offer to repurchase all the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if any, to the repurchase date. We might not be able to pay you the required price for notes you present to us at the time of a change of control because our senior credit facility or other indebtedness may prohibit payment or we might not have enough funds at that time.
Sinking Fund	None.

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Covenants	The indenture under which we will issue the notes contains covenants that, among other things, limit our ability under certain circumstances to create liens, enter into sale-leaseback transactions and engage in mergers, consolidations and sales of all or substantially all of our assets. See Description of the Notes and the Guarantees.
Use of Proceeds	We intend to use the net proceeds of the offering to fund a portion of the Crown Acquisition or the Alternate Crown Acquisition. See Use of Proceeds.
Risk Factors	An investment in the notes involves a high degree of risk. Potential investors should carefully consider the risk factors set forth under the heading Risk Factors and in the documents incorporated by reference herein prior to making a decision to invest in the notes.

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Summary Historical and Combined Financial Data of the Company and Crown

Set forth below is selected summary financial data of the Company for the fiscal year ended February 29, 2012, for the three month periods ended May 31, 2011 and 2012 and for the twelve month period ended May 31, 2012. The income statement data for the fiscal year ended February 29, 2012 have been derived from our audited historical financial statements incorporated by reference into this prospectus supplement. The income statement data for the three month periods ended May 31, 2011 and 2012 have been derived from our unaudited financial statements incorporated by reference into this prospectus supplement. The income statement data for the twelve month period ended May 31, 2012 have been derived from our audited and unaudited financial statements. In the opinion of our management, the unaudited data includes all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the data for such periods. It is important that you read the summary historical financial data presented below along with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements incorporated by reference into this prospectus supplement.

The information set forth below under Selected Combined Financial Data of the Company and Crown reflects certain adjustments relating to the Crown Acquisition and the proposed financing of the Crown Acquisition, as described in this prospectus supplement, to the historical financial data of the Company. Such combined financial data is not required to be included in this prospectus supplement by, and has not been prepared in accordance with the provisions of, Regulation S-X promulgated by the Securities and Exchange Commission with respect to pro forma financial information relating to business combinations. Such combined financial data does not reflect the acquisition method of accounting and other adjustments required by Regulation S-X and you should not place undue reliance on it. Additionally, such combined financial data does not purport to represent what our results of operations or financial condition would have actually been had the Crown Acquisition been consummated prior to such periods or to project the Company s results of operations or financial condition for any future period if the Crown Acquisition is consummated.

($ in millions)	**Twelve Months Ended May 31, 2012**	**Three Months Ended May 31, 2012**	**Three Months Ended May 31, 2011**	**Fiscal Year Ended February 29, 2012**
Income Statement Data:	**(unaudited)**	**(unaudited)**		
Sales	$ 2,993.7	$ 725.3	$ 710.7	$ 2,979.1
Less excise taxes	(339.9)	(90.5)	(75.4)	(324.8)
Net sales	2,653.8	634.8	635.3	2,654.3
Cost of product sold	(1,592.1)	(384.2)	(384.3)	(1,592.2)
Gross profit	1,061.7	250.6	251.0	1,062.1
Selling, general and administrative expenses	(527.3)	(144.0)	(138.2)	(521.5)
Impairment of intangible assets	(38.1)			(38.1)
Restructuring charges	(5.4)	(0.5)	(11.1)	(16.0)
Operating income	490.9	106.1	101.7	486.5
Equity in earnings of equity method investees	226.9	60.6	62.2	228.5
Interest expense, net	(187.4)	(50.7)	(44.3)	(181.0)
Loss on write-off of financing costs	(2.8)	(2.8)		
Income before income taxes	527.6	113.2	119.6	534.0
Provision for income taxes	(85.1)	(41.2)	(45.1)	(89.0)
Net income	$ 442.5	$ 72.0	$ 74.5	$ 445.0

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($ in millions)	Twelve Months Ended May 31, 2012 (unaudited)	Three Months Ended May 31, 2012 (unaudited)	Three Months Ended May 31, 2011 (unaudited)	Fiscal Year Ended February 29, 2012
Other Company Historical Financial Data:				
Comparable Basis EBITDA[a] [d]	$ 873.8	$ 199.7	$ 204.4	$ 878.5
Selected Combined Financial Data of the Company and Crown:				
Combined Comparable Basis EBITDA[b] [d]	$ 1,094.3	$ 262.5	$ 264.9	$ 1,096.7
Total Debt As Adjusted[c]	$ 5,296.0			
Ratio of Total Debt As Adjusted to Combined Comparable Basis EBITDA	4.8x			

(a) Comparable Basis EBITDA, a measure used by management to evaluate operating performance, is defined as net income of the Company before provision for income taxes, interest expense, net, depreciation and amortization and certain other items, as further detailed in footnote (d) below. Comparable Basis EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, Comparable Basis EBITDA is not intended to be a measure of free cash flow available for management s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and other debt service requirements. Management believes Comparable Basis EBITDA is helpful to investors and our management in highlighting trends because Comparable Basis EBITDA excludes the results of decisions outside the control of operating management and that can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, our presentation of Comparable Basis EBITDA may not be comparable to similarly titled measures of other companies.

(b)"100%" STYLE="font: 10pt Times New Roman, Times, Serif; margin-top: 0pt; margin-bottom: 0pt">§the uncertainty of profitability based upon the Company's history of losses;

§ risks related to failure of the Company and/or its joint venture partner to obtain adequate financing on a timely basis and on acceptable terms;

§ risks related to environmental regulation, permitting and liability;

§ political and regulatory risks associated with mining and exploration; and

§ other risks and uncertainties related to the Company's prospects, properties and business strategy.

Some of the important risks and uncertainties that could affect forward-looking statements are described further in this Annual Report under the headings "Risk Factors", "History and Development of Company," "Business Overview," "Property, plants and equipment," and "Operating and Financial Review and Prospects". Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Forward -looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward-looking statements.

Forward-looking information is based on certain factors and assumptions regarding, among other things, exploration, permitting, construction, mining, and production at the Gahcho Kué Project and Kennady North Project as well as world and U.S. economic conditions and the future worldwide demand for diamonds. Specifically, in making statements regarding expected mineral recovery, diamond prices and expectations concerning the diamond industry, the Company has made assumptions regarding, among other things, foreign exchange rates, continuing recovery of world and U.S. economic conditions, our ability to successfully implement our exploration, construction and mining plans, the success of permitting the Gahcho Kué Project, and overall demand for diamonds. While the Company considers these assumptions to be reasonable based on the information currently available to it, they may prove to be incorrect. See “Risk Factors”.

CAUTIONARY NOTE TO U.S. INVESTORS REGARDING RESOURCE AND RESERVE ESTIMATES – MINING PROPERTIES

This Annual Report on Form 20-F has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms “mineral reserve”, “proven mineral reserve” and “probable mineral reserve” are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”) and the Canadian Institute of Mining, Metallurgy and Petroleum (the “CIM Definition Standards”) - CIM Definition Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as amended. These definitions differ from the definitions in United States Securities and Exchange Commission (“SEC”) Industry Guide 7 (the “SEC Guidelines”) under the United States Securities Act of 1993, as amended (the “Securities Act”). Under SEC Industry Guide 7 standards, a “final” or “bankable” feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. “Inferred mineral resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of “contained ounces” in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this Annual Report on Form 20-F and the documents incorporated by reference herein contain descriptions of our mineral deposits that may not be comparable to similar information made public by

U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

NOTE REGARDING FINANCIAL STATEMENTS AND EXHIBITS

The financial statements and exhibits referred to herein are filed with this report on Form 20-F in the United States. This report is also filed in Canada as an Annual Information Form. Canadian investors should also refer to the annual consolidated financial statements of the Company as at December 31, 2011, which are incorporated by reference herewith, as filed with the applicable Canadian Securities regulators on SEDAR (the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval) under "Audited Annual Financial Statements - English".

METRIC EQUIVALENTS

For ease of reference, the following factors for converting metric measurements into imperial equivalents are provided:

To Convert From Metric	To Imperial	Multiply by
Hectares	Acres	2.471
Metres	Feet (ft.)	3.281
Kilometres (km.)	Miles	0.621
Tonnes	Tons (2000 pounds)	1.102
Grams/tonne	Ounces (troy/ton)	0.029

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not Applicable

Item 2. Offer Statistics and Expected Timetable

Not Applicable

Item 3. Key Information

A. *Selected financial data.*

The selected financial data set forth below should be read in conjunction with "Item 5 - Operating and Financial Review and Prospects", and in conjunction with the consolidated financial statements and related notes of the Company included under "Item 17, Financial Statements." The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective with the Company's transition to IFRS on January 1, 2010. Previously, the Company's consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Material measurement differences between GAAP and accounting principles in the United States, applicable to the Company, were described in the Company's previous consolidated financial statements. With the Company's transition to IFRS effective January 1, 2010, there is no requirement to report the material measurement differences between IFRS and accounting principles in the United States.

The Company's financial statements are set forth in Canadian dollars.

The following chart summarizes certain selected financial information for the Company as at and for its fiscal years ended December 31, 2011, and 2010 (2010 restated to IFRS), and its fiscal nine month period ended December 31, 2009, and the years ended March 31, 2009 and 2008 as previously reported under GAAP, with differences between GAAP and United States generally accepted accounting principles indicated. Except as otherwise indicated, dollar amounts presented are equivalent under Canadian and United States generally accepted accounting principles.

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For the year ending (except as noted)

All in CDN$1,000's except Earnings (loss) per Share and Number of Common Shares	December 31, 2011 (12 months) IFRS	December 31, 2010 (12 months) (restated to IFRS)	December 31, 2009 (9 months) (as previously reported)	March 31, 2009 (12 months) (as previously reported)	March 31, 2008 (12 months) (as previously reported)
Operating Revenue	nil	nil	nil	nil	nil
Other Revenue including interest	793	123	12	37	62
Working Capital	15,064	24,702	8,315	206	1,567
Net (Loss) Earnings -					
Under IFRS:	(11,539)	(14,535)	n/a	n/a	n/a
Under Canadian GAAP:	n/a	n/a	(1,458)	(1,538)	166
Under U.S. GAAP[1]:	n/a	n/a	(5,388)	(1,969)	(70)
Basic and diluted (loss) earnings per share -					
Under IFRS:	(0.15)	(0.21)	n/a	n/a	n/a
Under Canadian GAAP:	n/a	n/a	(0.02)	(0.03)	-
Under U.S. GAAP[1]:	n/a	n/a	(0.09)	(0.03)	-
Total Assets -					
Under IFRS:	66,557	71,236	n/a	n/a	n/a
Under Canadian GAAP:	n/a	n/a	83,747	65,560	66,764
Under U.S. GAAP[1]:	n/a	n/a	43,044	28,219	29,601
Share Capital					
Under IFRS:	146,912	133,345	n/a	n/a	n/a
Under Canadian GAAP:	n/a	n/a	97,313	85,871	85,582
Under U.S. GAAP:	n/a	n/a	97,313	85,871	85,515
Net Assets -					
Under IFRS:	57,132	56,022	n/a	n/a	n/a
Under Canadian GAAP:	n/a	n/a	71,516	59,681	60,642
Under U.S. GAAP[1]:	n/a	n/a	35,991	28,028	29,388
Number of Common Shares issued	80,345,558	77,416,057	66,631,746	59,932,381	59,870,881

[1] During the year ended December 31, 2010, the Company determined that a future income tax liability recognized for Canadian GAAP in its fiscal year ended March 31, 2008 should not be recognized for U.S. GAAP purposes as the carrying value of the mineral property for US GAAP purposes was less than its tax basis and also determined that the previously recorded adjustment to expense deferred exploration costs in the balance sheet reconciliation was overstated. The Company has revised comparative figures to correct for the immaterial impact of these items in this chart.

No dividends have been declared in any of the years presented above.

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Currency and Exchange Rates

All dollar amounts set forth in this report are in Canadian dollars, except where otherwise indicated. The following tables set forth, (i) for the five most recent financial years, the average rate (the "Average Rate") of exchange for the Canadian dollar, expressed in U.S. dollars, calculated by using the average of the U.S. noon exchange rates per the Bank of Canada for each trading day of the fiscal year; and (ii) the high and low exchange rates for each of the previous twelve calendar months for the Canadian dollar, expressed per the Bank of Canada.

The Average Rate is set out for each of the periods indicated in the table below.

Dec-11	Dec-10	Dec-09 (nine months)	Mar-09	Mar-08
US$0.9891	US$0.9704	US$ 0.9034	US$0.8878	US$0.9688

The high and low exchange rates for each month during the previous six months are as follows:

Month	High (US$)	Low (US$)
February 2012	$ 1.0158	$ 0.9960
January 2012	$ 1.0034	$ 0.9713
December 2011	$ 1.0423	$ 1.0052
November 2011	$ 1.0522	$ 1.0055
October 2011	$ 1.0658	$ 0.9892
September 2011	$ 1.0482	$ 0.9736

On March 23, 2012, the noon buying rate in Canadian dollars as per the Bank of Canada (the "Exchange Rate") was $1 Canadian = US$1.0018.

B. *Capitalization and indebtedness.*

Not Applicable

C. *Reasons for the offer and use of proceeds.*

Not Applicable

D. *Risk factors.*

The Company, and thus the securities of the Company, should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Annual Report prior to making an investment in the Company. In addition to the other information presented in this Annual Report, the following risk factors should be given special consideration when evaluating an investment in any of the Company's securities. Any or all of these risks could have a material adverse effect on the Company’s business, financial condition, results of operations, cash flows and on the market price of its common stock.

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(a) The Company's limited operating history makes it difficult to evaluate the Company's current business and forecast future results.

The Company has only a limited operating history on which to base an evaluation of the Company's current business and prospects, each of which should be considered in light of the risks, expenses and problems frequently encountered in the early stages of growth of all companies, and in mining companies in particular. The Company has not commenced mining operations and is still in the development and permitting stage of the Gahcho Kué Project and the exploration stage of the Kennady North Project. The Company may not be able to obtain all of the permits which are necessary for it to commence operations. The Company's mining operations may not be successful. As a result of this limited operating history, period-to-period comparisons of the Company's operating results may not be meaningful and the results for any particular period should not be relied upon as an indication of future performance.

(b) The diamond mining business is speculative and the Company may not be successful in implementing its plans to establish a successful and profitable diamond mining business

Resource exploration and possible development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. Diamonds acquired or discovered by the Company may be required to be sold at a price which is reflective of the market at that time.

(c) The Company has no significant source of operating cash flow and failure to generate revenues in the future could cause the Company to go out business.

The Company currently has no significant source of operating cash flow. The Company has limited financial resources. The Company's ability to achieve and maintain profitability and positive cash flow is dependent upon the Company's ability to generate revenues. The Company's current operations do not generate any cash flow. The Company's annual operating costs, excluding its share of costs of the Gahcho Kué Project, and exploration costs for the Kennady North Project, are approximately $1.7 million.

(d) The Company is in the development and permitting stage for the Gahcho Kué Project and may never become profitable.

The Company's Gahcho Kué Project is in the permitting and engineering design stage. The Company's proposed mining operations may never become profitable. Drilling of the 5034, Hearne, and Tuzo kimberlite pipes has been extensive and has now been completed for purposes for the development of the mine. Reserves have been established through the Feasibility Study but the permitting of the mine is still underway. Estimates of mineral deposits, development plans and production costs, when made, can be affected by such factors as environmental permit regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of diamonds ultimately discovered may differ from that indicated by bulk sampling results. Mine plans and processing concepts that have been developed are not necessarily final.

(e) The preliminary process testing may not be accurate in predicting the actual presence and recoverability of diamonds on Company properties.

Process testing is limited to small scale testing based on a number of laboratory test programs, trade-off studies and design evaluations. There can be no assurance that diamonds recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale. Difficulties may be experienced in obtaining the expected diamond recoveries when scaling up to a production scale process plant.

(f) The Company may not have adequate funds to explore properties other than the Gahcho Kué Project.

Over time, as the Kennady North Project continues, the Company may not have the ability to pay for exploration or development costs on its Kennady North Project. If such funds were available, there is no assurance that expending such funds would result in discovery of any diamondiferous kimberlite.

(g) The Company has a history of losses and is likely to continue to incur losses for the foreseeable future.

The Company has a history of losses and is likely to continue to incur losses for the foreseeable future. During the fiscal years ended December 31, 2011 and 2010 and the nine-month period ending December 31, 2009, and the year ended March 31, 2009, the Company incurred net losses or earnings during each of the following periods:

- $11.539 million loss for the year ended December 31, 2011;
- $14.535 million loss for the year ended December 31, 2010 (restated to IFRS);
- $1.458 million loss for the nine months ended December 31, 2009 (GAAP); and,
- $1.538 million net loss for the year ended March 31, 2009 (GAAP).

As of December 31, 2011, the Company had an accumulated deficit of $90.9 million. There can be no assurance that the Company will ever be profitable.

None of the Company's properties have advanced to the commercial production stage, and the Company has no history of earnings or cash flow from operations and, as an exploration and development company, has only a history of losses.

(h) The Company may never recover the amounts it has capitalized for mineral property costs.

The recoverability of the amounts capitalized for mineral properties in the Company's consolidated financial statements, prepared in accordance with International Financial Reporting Standards, is dependent upon the ability of the Company to complete exploration and development, the discovery of economically recoverable reserves, and, if warranted, upon future profitable production or proceeds from disposition of some or all of the Company's mineral properties.

(i) The Company’s failure to generate revenues in the future could cause the Company to go out of business.

As of December 31, 2011, the Company had cash and cash equivalents and short-term investments of approximately $17.8 million and working capital of approximately $15.1 million. During the past two fiscal years ended December 31, 2011 and December 31, 2010, the Company used approximately $20.4 million in cash flows in operating activities including approximately $13.1 million during the year ended December 31, 2011, and $7.3 million during the year ended December 31, 2010.

The Company's administrative and other expenses are expected to be approximately $2.0 million for the next year, in addition to an estimated $10.5 million for the Company’s proportional share of expenses for the Gahcho Kué joint venture for 2012, any exploration costs for the Kennady North Project. No repayments of historic sunk costs are expected in 2012.

In order to advance the Gahcho Kué Project and exploration of the Kennady North Project, the Company will be required to raise additional capital through equity and/or debt financings on terms that may be dilutive to its shareholders’ interests in the Company and the value of their common shares. The Company may consider debt financing, joint ventures, production sharing arrangements, disposing of properties or other arrangements to meet its capital requirements in the future. Such arrangements may have a material adverse affect on the Company’s business or results of operations. As well, there is no guarantee that the Company will be able to raise additional capital, or to raise additional capital on terms and conditions which it finds acceptable. If the Company is not able to raise sufficient capital, it may not be able to grow the Company, or it may be forced to cease doing business.

(j) Only the Company's Gahcho Kué Project has probable reserves.

The Gahcho Kué Project, the Company's major property, is in the permitting stage. The Kennady North Project is in the early stage of exploration. The Gahcho Kué Project has probable reserves in three of the four kimberlite bodies at Kennady Lake. See "Item 4D - Property, plants and equipment - Principal Properties". The Company has not yet determined whether the Kennady North Project contains mineral reserves that are economically recoverable. Failure to discover economically recoverable reserves at the Kennady North Project will require the Company to write-off costs capitalized in its financial statements.

(k) If the Company does not hold good title to properties, its ability to explore and eventually mine them could be prevented or restricted.

The Company's business depends upon having clear title to its properties and its ability to explore, develop and mine its properties without undue restriction. If any of its properties are subject to prior unregistered agreements that restrict the use of the properties, or if it does not hold title to the properties as it believes it does, its ability to explore, develop and mine on those properties could be limited or prevented completely. This would have a material adverse effect on the Company and its results of operation.

(l) Diamond prices can fluctuate significantly, and as a result, the Company's results of operation may fluctuate significantly.

The market for rough diamonds is subject to strong influence from demand in the United States, Japan, China and India, which are the largest markets for polished diamonds, and supply from major producers such as Alrosa of Russia and Debswana of Botswana. The price of diamonds has historically fluctuated. The price of diamonds dropped sharply after September 11, 2001. Between 2003 and 2006 diamond prices increased on average by approximately 15%. In 2007, rough diamond prices increased by an average of 25%, and in the first five months of 2008, by a further 11%. From about mid-2008 to mid-April 2009, rough diamond prices fell sharply with concerns of the global economic environment of the time. By mid-April 2009, rough diamond prices rebounded to pre-global recession levels. During 2010, rough diamond prices increased by approximately 30%. This strengthening continued through the first half of 2011 when diamond prices reached historic highs. During the second half of 2011, diamond prices dropped sharply resulting in an overall approximate 17% increase during the year. Such fluctuations make it difficult to predict future diamond prices and the Company's future results of operation may fluctuate significantly with rough diamond prices.

(m) The Company may incur significant costs to comply with Environmental and Government Regulation

The current and anticipated future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, territorial and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in development, production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company's exploration and development activities and its potential mining and processing operations in Canada are subject to various Canadian Federal and Territorial laws governing land use, the protection of the environment, prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters.

Such exploration, development and operation activities are also subject to substantial regulation under these laws by governmental agencies and may require that the Company obtain permits from various governmental agencies. The Company believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations, or that new legislation or modifications to existing legislation, would not have an adverse effect on any exploration, development or mining activities which the Company might undertake.

Further detail on governmental regulation may be found in “Item 4 - Business Review - Government Regulation”, below.

Failure to comply with applicable laws, regulations and permit requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations. The amount of funds required to comply with all environmental regulations and to pay for compensation in the event of a breach of such laws may exceed the Company's ability to pay such amounts.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation of existing or new laws, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining facilities.

(n) Climate and transportation costs may increase and have a negative effect on the Company’s results of operation.

The Gahcho Kué Project and Kennady North Project are subject to climate and transportation risks because of their remote northern locations. Such factors can add to the costs of exploration, development and operation, thereby increasing costs and negatively affecting profitability.

(o) The Company is dependent upon its joint venture partner for the success of the Gahcho Kué Project.

The Company, and the success of the Gahcho Kué Project, are dependent on the efforts, expertise and capital resources of our joint venture partner, De Beers Canada, and its parent De Beers. De Beers Canada is the project operator and is responsible for exploring, permitting, developing and operating the Gahcho Kué Project. In addition, De Beers Canada is providing its share of financing for the Gahcho Kué Project. The Company is dependent on De Beers Canada for accurate information about the Gahcho Kué Project, and the proper and timely progress of exploration, permitting and development.

(p) Operating Hazards and Risks

Diamond exploration and mining involves many risks. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks (such as accidents, injuries, and hazardous waste) normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damage to property and possible environmental damage.

(q) There are numerous factors beyond the control of the Company that may affect the marketability of any diamonds discovered.

Factors beyond the control of the Company may affect the marketability of any diamonds produced. Significant price movements over short periods of time may be affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to the Canadian dollar and other currencies), interest rates and global and/or regional consumption patterns. The effect of these factors on the prices of diamonds and therefore the economic viability of any of the Company's projects cannot accurately be predicted.

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(r) The Company's expectations reflected in forward-looking statements may prove to be incorrect.

This Form 20-F includes "forward-looking statements". A shareholder or prospective shareholder should bear this in mind when assessing the Company's business. All statements, other than statements of historical facts, included in this annual report, including, without limitation, the statements under and located elsewhere herein regarding industry prospects and the Company's financial position are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such expectations may prove to be incorrect.

(s) The Mineral Resources Industry is intensely competitive and the Company competes with many companies with greater financial means and technical facilities.

The resource industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities. Competition could adversely affect the Company's ability to acquire suitable producing properties or prospects for exploration in the future.

(t) Future equity financings which the Company may undertake would cause shareholders' interests in the Company to be diluted.

The Company's current operations do not generate any cash flow. As the Company seeks additional equity financing, the issuance of additional shares will dilute the interests of the Company's current shareholders. The amount of the dilution would depend on the number of new shares issued and the price at which they are issued. The Company has raised funds in recent years through share, option and warrant issuances. As of December 31, 2011, the Company had cash and cash equivalents and short-term investments of approximately $17.8 million and working capital of approximately $15.1 million. To develop the Gahcho Kué mine, and perform exploration on the Kennady North Project and any other properties acquired, the Company will need to investigate sources of additional liquidity to increase the cash balances required in the future. These additional sources include, but are not limited to, share offerings, private placements, credit facilities, and debt, as well as further possible exercises of outstanding options by directors and officers. There can be no assurance that the Company will be able to raise additional funds as needed, or that funds raised, if any, would be on terms and conditions acceptable to the Company. The Company's annual cash administrative operating costs, excluding the costs directly associated with the Gahcho Kué Project or Kennady North Project, are approximately $2.0 million.

(u) If outstanding options to buy Company stock are exercised, existing shareholders' interests in the Company will be diluted.

As at March 26, 2011, there were 864,000 options outstanding with exercise prices ranging from $1.26 to $6.13 (expiring at various dates). The stock options, if fully exercised, would increase the number of shares outstanding by 864,000. Such options, if fully exercised, would constitute about 1% (out of 81,509,558 shares (80,645,558 issued and outstanding, plus total outstanding options)) of the Company's resulting share capital as at March 26, 2012. It is unlikely that outstanding options and warrants would be exercised unless the market price of the Company's common shares exceeds the exercise price at the date of exercise. The exercise of such options and the subsequent resale of such Common shares in the public market could adversely affect the prevailing market price and the Company's ability to raise equity capital in the future at a time and price which it deems appropriate. The Company may also enter into commitments in the future which would require the issuance of additional common shares and the Company may grant new share purchase warrants and stock options. Any share issuances from the Company's treasury will result in dilution to existing shareholders.

(v) Members of our Board of Directors may have outside interests which conflict with the Company or its shareholders.

The President and CEO and director, Patrick Evans, and the CFO and Corporate Secretary, Jennifer Dawson, have Consulting Agreements with the Company (see “Item 6C - Board Practices”). In addition, certain officers and directors of the Company are associated with other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time.

(w) If the Company is not able to attract and maintain qualified key management personnel, it may not be able to successfully implement its planned business activities and growth.

The nature of the Company's business, its ability to continue its exploration, development and permitting activities and to thereby develop a competitive edge in its marketplace depends, in large part, on its ability to attract and maintain qualified key management personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be able to attract and retain such personnel. The Company's development to date has depended, and in the future will continue to depend, on the efforts of Patrick Evans. See “Item 7B -Related party transactions” and “Item 6C - Board Practices”. Loss of the key person could have a material adverse effect on the Company. The Company does not maintain key-man life insurance on Patrick Evans.

(x) The Company’s stock price is subject to significant fluctuations.

Prices for the Company's shares on the TSX and on the NYSE Amex, have been extremely volatile. The price for the Company's common shares on the TSX ranged from $3.52 (low) and $6.50 (high) during the fiscal year ended December 31, 2011, and from $2.02 (low) to $6.65 (high) during the fiscal year ended December 31, 2010. The price on the NYSE Amex ranged from $3.48 US (low) and $6.74 US (high) during the fiscal year ended December 31, 2011, and from $1.96 US (low) to $6.64 US (high) during the fiscal year ended December 31, 2010. Any investment in the Company's securities is therefore subject to considerable fluctuations in value.

(y) The Company has not paid dividends in the past and does not anticipate paying them in the foreseeable future.

Since its inception, the Company has not paid any cash dividends on its common stock and does not anticipate paying any cash dividends on its common stock in the foreseeable future. Without dividends on its common stock, shareholders will be able to profit from an investment only if the price of the stock appreciates before the shareholder sells it.

(z) Currency rate fluctuations may have a material effect on our financial position, results of operations, and timing of the development of the Company’s properties.

Feasibility and other studies conducted to evaluate the Company's properties are typically denominated in U.S. dollars, and the Company conducts a significant portion of its operations and incurs a significant portion of its administrative and operating costs in Canadian dollars. The exchange rate for converting U.S. dollars into Canadian dollars has fluctuated in recent years. Accordingly, the Company is subject to fluctuations in the rates of currency exchange between the U.S. dollar and the Canadian dollar, and these fluctuations in the rates of currency exchange may materially affect the Company's financial position, results of operations and timing of the development of its properties. In particular, the recent strong increase in the value of the Canadian dollar compared to the U.S. dollar should be expected to have a material impact on projected future capital and operating costs, which could impact on the economic viability of the Gahcho Kué Project.

(aa) Historically, the Company has been dependent on the support of De Beers and there is no assurance that their support will continue in the future.

The exploration of the Gahcho Kué Project has historically been funded by De Beers Canada, De Beers Canada is the operator of the Project, and De Beers Canada has an equity investment in the Company. With the execution of the 2009 Joint Venture Agreement, De Beers and the Company share funding responsibility for the Gahcho Kué Project. Under the 2009 Gahcho Kué Joint Venture Agreement, the Company and De Beers are required to fund their share of costs for future operations. As well, the Company is required to make certain repayments of agreed historic costs of the Gahcho Kué Project, funded by De Beers, if and when certain events occur. If either party is unable to fund their share of costs, or, if the Company defaults on its required payments of historic costs if and when they are due, in addition to interest on late or defaulted payments, marketing rights can be diluted for the defaulting party. As well, there is no assurance that the Company will have the required funds on hand when the payments are required to be made. Finally, there is no assurance that the level of support provided by De Beers will continue in the future.

(bb) It will be difficult for any shareholder of the Company to commence legal action against the Company's executives. Enforcing judgments against them or the Company will be difficult.

As the Company is a Canadian company, it may be difficult for U.S. shareholders of the Company to effect service of process on the Company or to realize on judgments obtained against the Company in the United States. Some of the Company's directors and officers are residents of Canada and a significant part of the Company's assets are, or will be, located outside of the United States. As a result, it may be difficult for shareholders resident in the United States to effect service of process within the United States upon the Company, directors, officers or experts who are not residents of the United States, or to realize in the United States judgments of courts of the United States predicated upon civil liability of any of the Company directors or officers under the United States federal securities laws. If a judgment is obtained in the U.S. courts based on civil liability provisions of the U.S. federal securities laws against the Company or its directors or officers it will be difficult to enforce the judgment in the Canadian courts against the Company and any of the Company's non-U.S. resident executive officers or directors. Accordingly, United States shareholders may be forced to bring actions against the Company and its respective directors and officers under Canadian law and in Canadian courts in order to enforce any claims that they may have against the Company or the Company's directors and officers. Subject to necessary registration, as an extra provincial company, under applicable provincial corporate statutes in the case of a corporate shareholder, Canadian courts do not restrict the ability of non-resident persons to sue in their courts. Nevertheless it may be difficult for United States shareholders to bring an original action in the Canadian courts to enforce liabilities based on the U.S. federal securities laws against the Company and any of the Company's Canadian executive officers or directors.

(cc) The MPV Shares may be delisted from NYSE Amex, and if this occurs, shareholders may have difficulty converting their investment into cash efficiently.

NYSE Amex has established certain standards for the continued listing of a security on this exchange. If the MPV Shares were to be excluded from NYSE Amex, the prices of the MPV Shares and the ability of shareholders to sell such stock would be adversely affected. If the Company were to be delisted, the Company would be required to comply with the initial listing requirements to be relisted on NYSE Amex.

The Company is likely a "passive foreign investment company" which may have adverse U.S. federal income tax consequences for U.S. shareholders.

U.S. investors in the Common Shares should be aware that the Company believes it was classified as a passive foreign investment company (“PFIC”) during the tax year ended December 31, 2011, and based on current business plans and financial expectations, the Company believes that it will be a PFIC for the tax year ending December 31, 2012. If the Company is a PFIC for any year during a U.S. shareholder’s holding period, then such U.S. shareholder generally will be required to treat any gain realized upon a disposition of Common Shares, or any so-called “excess distribution” received on its Common Shares, as ordinary income, and to pay an interest charge on a portion of such gain or distributions, unless the shareholder makes a timely and effective "qualified electing fund" election (“QEF Election”) or a "mark-to-market" election with respect to the Common Shares. A U.S. shareholder who makes a QEF Election generally must report on a current basis its share of the Company's net capital gain and ordinary earnings for any year in which the Company is a PFIC, whether or not the Company distributes any amounts to its shareholders. However, U.S. shareholders should be aware that there can be no assurance that the Company will satisfy record keeping requirements that apply to a qualified electing fund, or that the Company will supply U.S. shareholders with information that such U.S. shareholders require to report under the QEF Election rules, in the event that the Company is a PFIC and a U.S. shareholder wishes to make a QEF Election. Thus, U.S. shareholders may not be able to make a QEF Election with respect to their Common Shares. A U.S. shareholder who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the Common Shares over the taxpayer’s basis therein. This paragraph is qualified in its entirety by the discussion below under the heading “United States Federal Income Tax Consequences.” Each U.S. shareholder should consult its own tax advisor regarding the PFIC rules and the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

Item 4. Information on the Company

A. *History and development of the company.*

The Corporate Organization

Mountain Province Diamonds Inc., formerly Mountain Province Mining Inc., was formed on November 1, 1997 by the amalgamation (the "MPV Amalgamation") of Mountain Province Mining Inc. ("Old MPV") and 444965 B.C. Ltd. ("444965") pursuant to an amalgamation agreement (the "MPV Amalgamation Agreement") dated as of August 21, 1997.

Under the terms of the MPV Amalgamation Agreement, as at November 1, 1997, each Old MPV share was exchanged for one MPV Share and each 444965 share was exchanged for approximately 0.80 of one MPV Share. The conversion ratios reflected the respective interests of Old MPV and 444965 in the AK-CJ Properties prior to the date of the MPV

Amalgamation.

Old MPV was incorporated under the laws of British Columbia on December 2, 1986 under the British Columbia *Company Act* and was engaged in the exploration of precious and base mineral resource properties until the date of the MPV Amalgamation. Prior to the date of the MPV Amalgamation, Old MPV held an undivided 50% interest in the AK-CJ Properties and an interest in each of the other properties which are currently held by MPV, as described below.

444965, a wholly-owned subsidiary of Glenmore Highlands Inc., (Glenmore being a former controlling shareholder of the Company as defined under the *Securities Act*, British Columbia) prior to the MPV Amalgamation, was incorporated under the laws of British Columbia on August 20, 1993. Prior to the MPV Amalgamation, 444965's only material asset consisted of a 40% undivided interest in the AK-CJ Properties.

As of March 31, 2000, the Company had one wholly-owned subsidiary, Mountain Province Mining Corp. (USA), which has since been voluntarily dissolved.

On April 4, 2000, the Company incorporated a wholly-owned subsidiary, Mountain Glen Mining Inc. in Alberta. Pursuant to an arrangement agreement (the "Arrangement Agreement") with Glenmore dated May 10, 2000, Glenmore was amalgamated with Mountain Glen effective as of June 30, 2000 to form a wholly-owned subsidiary (also known as "Mountain Glen Mining Inc.") of the Company. All Glenmore Shares were exchanged for common shares in the Company on the basis of 0.5734401 MPV Shares to one Glenmore Share, and Glenmore Shares were concurrently cancelled. All of the assets of Glenmore became assets of Mountain Glen, including 16,015,696 MPV Shares previously held by Glenmore.

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Glenmore had two wholly-owned subsidiaries, Baltic Minerals BV, incorporated in the Netherlands, and Baltic Minerals Finland OY, incorporated in Finland. Pursuant to the Arrangement Agreement, these companies became wholly-owned subsidiaries of the Company.

The Company changed its name from Mountain Province Mining Inc. to Mountain Province Diamonds Inc. effective October 16, 2000. It commenced trading under its new name on the TSX on October 25, 2000.

Pursuant to an Assignment and Assumption Agreement dated March 25, 2004 between the Company and Mountain Glen, Mountain Glen distributed its property and assets *in specie* to the Company with the object of winding up the affairs of Mountain Glen. The property transferred included Mountain Glen's shares in Baltic Minerals BV and the 16,015,696 MPV Shares. On March 30, 2004, the 16,015,696 MPV Shares were cancelled and returned to treasury.

Mountain Glen was voluntarily dissolved on August 4, 2004.

Pursuant to the repeal of the British Columbia *Company Act* and its replacement by the British Columbia *Business Corporations Act* (the "New Act"), the Company transitioned to the New Act and adopted new Articles of Incorporation. On September 20, 2005, the Company's shareholders approved a special resolution for the continuance of the Company into Ontario, and the Company amended its articles and continued incorporation under the *Business Corporations Act (Ontario)*, transferring from the Company Act (British Columbia).

The Company is domiciled in Canada.

The names of the Company's subsidiaries, their dates of incorporation and the jurisdictions in which they were incorporated as at the date of filing of this Annual Report, are as follows:

Name of Subsidiary	Date of Incorporation	Juridiction of Incorporation
Baltic Minerals BV	January 26, 1996	The Netherlands
Baltic Minerals Finland OY	May 18, 1994	Finland
Camphor Ventures Inc.	May 9, 1986 (as Sierra Madre Resources Inc.)	British Columbia, Canada
Kennady Diamonds Inc.	February 27, 2012	Ontario, Canada

Kennady Diamonds Inc. was incorporated on February 27, 2012 and is currently a wholly-owned subsidiary of Mountain Province. It was formed for the purpose of acquiring Mountain Province's interest in the Kennady North

Project in Northwest Territories, Canada (see “Kennady North” discussion under “Other Properties”).

The subsidiaries of the Company, represented diagrammatically, are as follows:

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The Company's registered, records, administrative, and executive office is at 161 Bay Street, Suite 2315, PO Box 216, Toronto, Ontario, Canada M5J 2S1, the telephone number is (416) 361-3562, and the fax number is (416) 603-8565.

The Company's initial public offering on the VSE was pursuant to a prospectus dated July 28, 1988 and was only offered to investors in British Columbia. The Company listed its shares on the TSX (Trading Symbol "MPV") on January 22, 1999 and on the Nasdaq Smallcap Market (Trading Symbol "MPVIF") on May 1, 1996. Its shares were delisted from the Vancouver Stock Exchange (now known as the TSX Venture Exchange and prior to that, as the CDNX) on January 31, 2000 and from the Nasdaq Smallcap Market on September 29, 2000. Presently, the Company's shares trade on the TSX under the symbol "MPV" and also on the NYSE Amex (formerly Amex) under the symbol “MDM”. Prior to April 4, 2005, the Company's shares traded on the OTCBB under the symbol "MPVI". The Company is also registered extra-provincially in the Northwest Territories, and is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland. The Company files reports in the United States pursuant to Section 13 of the Securities Exchange Act.

The Company’s transfer agent is Computershare Investor Services Inc. located at 100 University Avenue, 8th Floor, Toronto, Ontario, Canada, M5J 2Y1.

Principal Capital Expenditures and Divestitures

There are no principal capital expenditures and divestitures currently in progress.

Takeover offers

There were no public takeover offers by third parties in respect of the MPV Shares or by the Company in respect of other companies' shares during the last and current financial year.

Acquisitions and Dispositions

On October 10, 2002, the Company granted an option for the acquisition by Vision Gate Ventures Limited (now known as Northern Lion Gold Corp.) of a 70% interest in its Haveri Gold Property, which was not considered to be a

property that was material to the Company. On October 4, 2004, the Company agreed to exchange the Company's 30% interest in the Haveri Gold Property for 4,000,000 common shares of Northern Lion Gold Corp. The shares were subject to a two-year hold period and there were volume restrictions on re-sale thereafter. The 4,000,000 common shares of Northern Lion Gold Corp. were sold in July 2007.

On July 5, 2006, the Company announced that it had entered into an agreement with certain Camphor Ventures Inc. ("Camphor" or "Camphor Ventures") shareholders to acquire approximately 33.5 percent of the issued and outstanding shares of Camphor through a private agreement exempt share exchange on the basis of 0.3975 MPV Shares for each Camphor share. The acquisition was completed on July 24, 2006.

On January 19, 2007, the Company announced that Camphor had accepted an offer letter from the Company in terms of which the Company offered, subject to certain conditions, to acquire all of the outstanding securities of Camphor Ventures on the basis of 0.41 MPV Shares, options or warrants (as the case may be) per Camphor common share, option, or warrant. Offering documents and the Camphor Directors' Circular were mailed to Camphor shareholders on February 23, 2007, and the offer remained open until March 30, 2007, following which Mountain Province took up the Camphor shares tendered into the offer increasing the Company's interest in Camphor to over 90 percent. The offer was subsequently extended until April 16, 2007, following which the Company's interest in Camphor increased to 96% percent on a fully diluted basis. On April 19, 2007, the Company issued a Notice of Compulsory Acquisition to acquire the balance of the outstanding shares of Camphor. The Notice expired June 19, 2007 and the Company took up the balance of the Camphor shares. Camphor Ventures was de-listed in July 2007, and is now a wholly owned subsidiary of Mountain Province.

B. *Business overview.*

1.1 Introduction

The Company is a natural resource property exploration and development company. The Company has interests in several natural resource properties, the most significant and principal property being a 49% interest (including the 4.9% interest in the property held by Camphor) in the AK Property located in the Northwest Territories of Canada. See "Item 4D - Property, plants and equipment".

Bulk sampling and drilling on the AK Property is complete, as is the Definitive Feasibility Study on the Gahcho Kué Project which demonstrates an economically viable project. The Project is currently in the permitting stage. There are no revenues from the Company’s natural resource properties.

In July and November 2010, the Company acquired eight (8) mineral claims just north and west of the Gahcho Kué Project mineral leases. The Company refers to these eight claims and its five 100%-owned mineral leases as the Kennady North Project. During 2011, the Kennady North Project underwent a desktop study to compile the historic exploration information in order to assess what exploration, if any, could be done on these 13 claims and leases. See “Other Properties” for further description of the work done on the Kennady North Project

1.2 Historical Corporate Development

AK-CJ Properties, and the Gahcho Kué Project

In August 1992, the Company acquired a 100% interest in the AK-CJ Properties that encompassed approximately 520,000 acres. Pursuant to an agreement dated November 18, 1993 (as amended), the Company optioned 40% of its interest in the AK-CJ Properties to 444965, a subsidiary of Glenmore.

Pursuant to an agreement dated August 16, 1994 (as amended), the Company also optioned 10% of its interest in the AK-CJ Claims to Camphor. Following the merger of the Company with 444965, the Company held a 90% interest in the AK-CJ Claims, and Camphor, the remaining 10%. Exploration work in the form of soil sampling, aerial geophysical surveys and geochemical and geophysical analysis were undertaken on these properties during the period from 1992 to 1995.

During fiscal 1995, the Company focused the majority of its attention on the AK Property. In February 1995, a diamondiferous kimberlite was discovered (the "5034" kimberlite pipe) and a program of delineation drilling was undertaken. Activity during this period on the Company's other properties was minimal because of the focus on the AK Property.

During 1996, the Company completed a 104-tonne mini-bulk sample from the 5034 kimberlite pipe. The results indicated an average grade of 2.48 carats per tonne. During 1997, the Company concluded a joint venture agreement (the "Letter Agreement") with Monopros, a wholly-owned subsidiary of De Beers now known as De Beers Canada Inc., Camphor Ventures Inc., and other parties, and further amended it (as the Gahcho Kué Joint Venture Agreement) in 2002, to develop the AK-CJ Properties. The Letter Agreement granted De Beers the sole and exclusive right and option to acquire a 51% ownership interest in the AK Property in consideration of incurring certain expenditures.

During the 1997 exploration season, De Beers Canada discovered three new kimberlite pipes on the AK Property: Tesla, Tuzo and Hearne. All are diamondiferous.

During the spring of 1998, De Beers Canada conducted mini-bulk sampling on the three new pipes as well as the 5034 kimberlite pipe, the original pipe discovery on the AK Property. The results were positive enough for De Beers to commit to a major bulk sample in 1999.

During 1999, De Beers Canada completed a major bulk sample of the four major pipes. For the 5034 kimberlite pipe, a total of 1,044 carats were recovered from 609 tonnes of kimberlite. For the Hearne pipe, a total of 856 carats were recovered from 469 tonnes of kimberlite. For the Tuzo pipe, a total of 533 carats were recovered from 523 tonnes of kimberlite. For the Tesla pipe, 64 carats were recovered from 184 tonnes of kimberlite. The Tesla pipe was too low grade to be considered as part of a mine plan.

On March 8, 2000, the Company agreed to extend the feasibility study decision date, and De Beers Canada agreed to carry all exploration, development and other project costs.

On August 4, 2000, De Beers Canada presented the Desktop Study to the Company. Upon presentation, De Beers Canada was deemed to earn a 51% interest in the AK-CJ Properties. Consequently, the Company was left with a 44.1% interest and Camphor with a 4.9% interest in the AK-CJ Properties. The main conclusion of the Desktop Study was that only a 15 percent increase in diamond revenues was needed for De Beers Canada to proceed to the feasibility stage.

On May 4, 2001, De Beers Canada completed the bulk sample program of the Hearne and 5034 pipes. A total of approximately 307 tonnes and 550 tonnes of kimberlite were recovered from the Hearne and 5034 pipes respectively. The modeled values of the diamonds recovered from the Hearne and 5034 pipes were reported on December 18, 2001 and the results were encouraging enough for De Beers to commit to another bulk sample during the winter of 2002. The main purpose was to recover more high quality, top color diamonds, like the 9.9-carat diamond recovered in the 2001 program.

The CJ Property claims substantially lapsed in November 2001 and the remaining CJ Property claims lapsed on August 17, 2002.

During 2002, the Company entered into the Gahcho Kué Joint Venture Agreement. This agreement provided that De Beers Canada could have earned up to a 55% interest in the project by funding and completing a positive definitive feasibility study. The agreement also provided that De Beers Canada could have earned up to a 60% interest in the project by funding development and construction of a commercial-scale mine.

The winter 2002 bulk sample program of the 5034 and Hearne pipes was completed on April 20, 2002. The modeled grades and values per carat for both pipes were used to update the Desktop Study. De Beers Canada's 2003 updated Desktop Study showed that, due to the decrease in diamond prices since September 11, 2001 and a lower U.S. dollar against the Canadian dollar, the projected return on the project would be slightly less than that obtained previously. As a result of the indicated internal rate of return, well below the agreed hurdle rate of 15%, De Beers decided to postpone a pre-feasibility decision until the next year when the Desktop Study would be updated again.

At the end of July 2003, De Beers notified the Company that they had started work on a detailed internal cost estimate study on the Gahcho Kué Project that incorporated the Kennady Lake diamond deposits. They based their decision on their belief that the improving geo-political and economic conditions supported confidence in longer-term diamond price projections. In November 2003, the Joint Venture’s management committee approved a budget of approximately $25 million for the study which started in January 2004, and was completed mid-2005.

The projected profitability levels were sufficiently encouraging to the Joint Venture to support the Joint Venture’s decision to proceed to the next phase of permitting and advanced exploration to improve the resource confidence and input data for mine design to support further study. On July 11, 2005, De Beers reported an increase in the modeled value of the diamonds for the Gahcho Kué Project with the modeled values increasing by approximately 6, 7 and 8 percent for the Tuzo, Hearne and 5034 pipes respectively.

During 2006, 2007 and the winter of 2008, advanced exploration and permitting work continued on the AK Property. For further particulars, reference should be made to "Item 4D - Property, plants and equipment - Principal Properties - Resource Properties".

Other Properties

The Company does not regard the properties, other than the AK Property (the "Gahcho Kué Project"), as material at this time, and other properties are only briefly discussed in this annual report. For further particulars, reference should be made to "Item 4D - Property, plants and equipment - Other Properties".

Kennady North

The Company (outside of the Joint Venture with De Beers Canada) has the following five mining leases at Kennady Lake, adjacent or close to the Gahcho Kué Project, with their respective lease numbers –4340, 4342, 4466, 4467, and 4468. These five mining leases represent about 12,755 acres. In late 2010, the Company also staked eight claims around Gahcho Kué – Kwezi 01 to Kwezi 08. These claims represent approximately 17,619 acres, and together with the five mining leases, comprise 30,374 acres – the Company's Kennady North Project. These mining leases and claims are not part of the 2009 Gahcho Kué Joint Venture Agreement with De Beers Canada and are not considered part of the Gahcho Kué Project.

Historical exploration on the Kennady North Project was done starting in 1992 and continued until about 10 years ago when the Company and De Beers Canada focussed exploration efforts on the Gahcho Kué Project.

In 2011, the Company undertook a desktop study of the exploration work done in the past on the Kennady North Project, which, when completed, would help the Company to assess what further exploration work would be warranted on the Kennady North Project. *See also Item 4.D. Property, Plant and Equipment for further details of work conducted.*

Acquisition of Camphor Ventures Inc.

On July 5, 2006 the Company announced that it had entered into an agreement with certain Camphor shareholders to acquire approximately 33.5 percent of the issued and outstanding shares of Camphor through a private agreement exempt share exchange on the basis of 0.3975 Mountain Province shares for each Camphor share. The acquisition was completed on July 24, 2006.

On January 19, 2007, the Company announced that Camphor had accepted an offer letter from the Company in terms of which Mountain Province offered, subject to certain conditions, to acquire all of the outstanding securities of Camphor on the basis of 0.41 Mountain Province common shares, options or warrants (as the case may be) per Camphor common share, option, or warrant. Offering documents and the Camphor Directors' Circular were mailed to Camphor shareholders on February 23, 2007, and the offer remained open until March 30, 2007, following which Mountain Province took up the Camphor shares tendered into the offer increasing the Company's interest in Camphor to over 90 percent. The offer was subsequently extended until April 16, 2007, following which the Company's interest in Camphor increased to 96% percent on a fully diluted basis. On April 19, 2007, the Company issued a Notice of Compulsory Acquisition to acquire the balance of the outstanding shares of Camphor. The Notice expired June 19, 2007, and the Company took up the rest of the shares. Camphor Ventures was de-listed in July 2007, and is now a wholly owned subsidiary of Mountain Province.

Foreign Assets

Until the Arrangement with Glenmore, all of the Company's assets are and have been located in Canada (see Item 4D - Property, plants and equipment - Principal Properties). Since the Arrangement, the Company has not generated any revenue from operations. Pursuant to the Arrangement, the assets of Glenmore, including properties in Finland, were acquired by Mountain Glen, and are now held by the Company, having been distributed to the Company on the winding up of Mountain Glen. The Haveri Gold Property in Finland was transferred to Northern Lion Gold Corp. in 2004. See "Item 4A - History and development of the Company - Acquisitions and Dispositions".

Government Regulation

The current and anticipated future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, territorial and local governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies engaged in the development and operation of mine-related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company's exploration activities and its potential mining and processing operations in Canada are subject to various laws governing land use, the protection of the environment, prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters.

In most jurisdictions, mining is regulated by conservation laws and regulations. In the Northwest Territories, the mining industry operates primarily under Canadian federal law because the ownership of water, fisheries, and surface and sub-surface rights to land are vested in the federal government. Accordingly, federal legislation governs prospecting, development, production, environmental protection, exports, and collective bargaining. Matters of a purely local or territorial nature, such as mine safety standards, the establishment of a minimum wage, education and local health services are matters for the Territorial government. With respect to environmental matters, the Company's properties are subject to federal regulation under, *inter alia,* the *Canadian Environmental Protection Act*, the *Fisheries Act*, the *Northwest Territories Waters Act,* the *Arctic Waters Pollution Prevention Act*, the *Navigable Waters Protection Act*, the *Mackenzie Valley Resource Management Act* and the *Mackenzie Valley Land Use Regulations.* Territorial environmental legislation may also apply for some purposes. The Mackenzie Valley Land and Water Board established under the federal *Mackenzie Valley Resource Management Act* has the responsibility to receive and to process applications for water licenses under the *Northwest Territories Waters Act* in most areas of the Northwest Territories. These licenses outline the volume of water the mine may use, how tailings will be treated, the quality and types of waste that may be deposited into the receiving environment and how the quality and types of waste may be monitored and contain requirements regarding the restoration of the tailings disposal and other affected areas. The Mackenzie Valley Land and Water Board also issues land use permits applicable to most areas of the Northwest Territories under the *Mackenzie Valley Land Use Regulations*. Such permits govern the manner in which various development activities on federal Crown and other lands may be undertaken. Applicable territorial legislation and regulations include the *Apprentice and Trade Certification Regulations*, *Archaeological Resources Act*, *Boilers and Pressure Vessels Regulations, Business Licence Fire Regulations, Civil Emergency Measures Act, Environmental Protection Act, Environmental Rights Act, Explosives Use Act, Explosives Regulations, Fire Prevention Act, Fire Prevention Regulations, Labour Standards Act, Mine Health and Safety Act, Mine Health and Safety Regulations, Public Health Act, Research Act, Wildlife Act,* and *Workers Compensation Act.*

The *Fisheries Act, Northwest Territories Waters Act, Territorial Lands Act and Regulations, Territorial Quarrying Regulations, Mackenzie Valley Land Use Regulations*, *Real Property Act, Transportation of Dangerous Goods Act,* and the *Canada Mining Regulations* are federal legislation or regulations. Failure to comply with territorial and/or federal legislation or regulations may result in cease work orders and/or fines.

The Company's operations and exploration activities are also subject to substantial regulation under these laws by governmental agencies. The Company believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations, or that new legislation or modifications to existing legislation, would not have an adverse effect on any exploration, development or mining project which the Company might undertake.

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Portions of the Northwest Territories will also be subject to the jurisdiction of the Tlicho Government, a First Nations government which will have certain powers of regulation in respect of "Tlicho Lands" under the "Tlicho Agreement", a land claim agreement entered into between the Tlicho First Nation and the federal and territorial governments.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

On October 17, 2007, the Company entered into an agreement with the Government of the Northwest Territories pursuant to which it agreed to make available 10% of its share of the diamonds from the Gahcho Kué Project to the Northwest Territories diamond cutting and polishing facilities.

C. *Organizational structure.*

See “Item 4 A - History and development of the Company - The Corporate Organization”.

D. *Property, plants and equipment.*

Principal Properties

In this section on "Principal Properties", the reader should note that where disclosures pertaining to mineral resources are made, these are not mineral reserves and do not have demonstrated economic viability. The Company has only one principal property, the AK Property also known as the Gahcho Kué Project, which is located in the Canada’s Northwest Territories. The Gahcho Kué Project is in the permitting stage.

A "mineral resource" as defined under the CIM Definition Standards, differs from the SEC Guidelines and means a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. See "Glossary of Technical Terms" in this Report.

A "mineral reserve" as defined under the CIM Definition Standards, which are different from the SEC Guidelines, means the economically mineable part of a Measured Mineral Resource or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined. See "Glossary of Technical Terms" in this Report.

In this Annual Report, because the Company is a Canadian company with mining properties in Canada, the definitions and disclosures are made in accordance with the CIM Definition Standards as required by Canadian law for disclosure of material facts. The CIM Definition Standards differ from those adopted by the SEC in its SEC Guidelines. See "Glossary of Technical Terms" in this Report.

It should be noted that the SEC Guidelines define "reserve" to mean "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination". See the Mineral Reserves Section, below.

Description of Property

Administrative Offices

The Company's administrative office is located at 161 Bay Street, Suite 2315, PO Box 216, Toronto, Ontario, Canada M5J 2S1. The Company considers these premises suitable for its current needs.

Mineral Properties

Of the Company’s properties, the Gahcho Kué Project is under the most intense work because of the discovery of the Kennady Lake Kimberlite Field, and it is considered to be the Company's principal property.

Amended and Restated Joint Venture Agreement

Under the 2002 Agreement with De Beers Canada previously in effect, the Company was not responsible for funding the Gahcho Kué Project, and De Beers Canada had no recourse to the Company for repayment of funds until, and unless, the Gahcho Kué Project was built, in production, and generating net cash flows.

On July 3, 2009, the Company entered the “2009 Gahcho Kué Joint Venture Agreement” with De Beers Canada (jointly, the “Participants”) with respect to the Gahcho Kué Project that replaces the 2002 Agreement entered into by the Participants. Under the 2009 Gahcho Kué Joint Venture Agreement:

1. The Participants’ continuing interests in the Gahcho Kué Project will be Mountain Province 49% and De Beers Canada 51%, with Mountain Province’s interest no longer subject to the dilution provisions in the 2002 Agreement except for normal dilution provisions which are applicable to both Participants;
2. Each Participant will market their own proportionate share of diamond production in accordance with their participating interest;
3. Each Participant will contribute their proportionate share to the future project development costs;

4. Material strategic and operating decisions will be made by consensus of the Participants as long as each Participant has a participating interest of 40% or more;
5. The Participants agreed that the sunk historic costs to the period ending on December 31, 2008 will be reduced and limited to $120 million;
6. Mountain Province would repay De Beers Canada $59 million (representing 49% of an agreed sum of $120 million) in settlement of the Company's share of the agreed historic sunk costs on the following schedule:

· $200,000 on execution of the 2009 Gahcho Kué Joint Venture Agreement (Mountain Province's contribution to the 2009 Gahcho Kué Joint Venture expenses to date of execution of the 2009 Gahcho Kué Joint Venture Agreement) (paid);

· Up to $5.1 million in respect of De Beers Canada's share of the costs of the feasibility study (paid $4,366,362 to December 31, 2011, recorded as "sunk cost repayment" in the Company's financial statements);

· $10 million upon the completion of a feasibility study with at least a 15% IRR and approval of the necessary development work for a mine (as defined in the 2009 Gahcho Kué Joint Venture Agreement – paid March 15, 2011);

· $10 million following the issuance of the construction and operating permits;

· $10 million following the commencement of commercial production; and

· The balance of approximately $24.4 million within 18 months following commencement of commercial production.

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Mountain Province has agreed that the marketing rights provided to the Company in the 2009 Gahcho Kué Joint Venture Agreement will be diluted if the Company defaults on certain of the repayments described above.

Extracts from Technical Report

Unless otherwise stated, the technical information in this section from the sub-headings “Property Setting” to “Economic Analysis - Summary” is based upon Independent Qualified Person's Technical Report dated as of December 1, 2010 (with information effective as of October 15, 2010) (the "2010 Technical Report") entitled "Gahcho Kué Project, Definitive Feasibility Study, NI 43-101 Technical Report, Northwest Territories, Canada" prepared for the Gahcho Kue Joint Venture by JDS Energy and Mining Inc. by:

· Daniel D. Johnson, P.Eng. (JDS)
· Mike Makarenko, P.Eng. (JDS)
· Ken Meikle, P.Eng. (JDS)
· Bob Prince-Wright, P.Eng. (JDS)
· Jarek Jakubec, C.Eng. (SRK (Canada) Consulting Inc.)
· Kevin Jones, P.Eng. (EBA Engineering Consultants Inc.)

The details about the 2010 Technical Report were filed on EDGAR on December 3, 2010 under Form 6K. The full Technical Report was also filed with the relevant Securities Commissions in Canada on the System for Electronic Document Analysis and Retrieval (“SEDAR”) on December 3, 2010. Portions of the following information are based on assumptions, qualifications and procedures which are not fully described herein. Reference should be made to the full text of the 2010 Technical Report.

Property Setting

The Gahcho Kué Project is located at the informally-named Kennady Lake, approximately 300 km east-northeast of Yellowknife in the Northwest Territories (NWT), Canada at the approximate latitude 63.26.16N and longitude 109.12.05W (NAD83 Zone 12 coordinates 7035620N, 589735E.

The Gahcho Kué Project is located 150 km south–southeast of the Diavik and Ekati diamond mines operated by Diavik Diamond Mines Inc. (Rio Tinto) and BHP Diamonds Inc. (BHP Billiton) respectively at Lac de Gras, and 80 km east–southeast of the De Beers Canada Snap Lake mine.

The Gahcho Kué Project consists Hearne North and South; 5034 West, Central and North-East; 5034 South Pipe; 5034 North Pipe; Wallace; Dunn Sheet and Tesla diamondiferous kimberlite pipes, sheets and dykes. Except for the northernmost part of 5034, the main kimberlite pipes all lie beneath Kennady Lake.

There are myriad lakes in the area. Kennady Lake, under which the kimberlite pipes lie, is a local headwater lake with a minimal catchment area, very pure water, and relatively low potential for aquatic life.

Physiography

The Gahcho Kué Project lies on the edge of the continuous permafrost zone in an area known as the "barren lands", which are characterized by heath and tundra, with occasional knolls, bedrock outcrops, and localized surface depressions interspersed with lakes. Thin, discontinuous covers of organic and mineral soil and glacial till deposits overlie bedrock, which occurs typically within a few metres of surface. Some small stands of stunted spruce occur in the area.

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Fauna includes red fox, arctic fox, sic sic, grizzly bear, wolf and caribou (during annual migration), ptarmigan, abundant migratory bird life in summer, and clouds of mosquitoes and black flies during the height of the summer months (mid-June to mid-August).

Vegetation in the area is characteristic of low arctic tundra. Shrubs of willow and birch occur in drainages, and in some areas may reach over 2 m in height. Heath tundra covers most upland areas. Conifer stands occur in patchy distribution north of the tree line in lowland, sheltered areas, and riparian habitats, and are found as far north as Kirk Lake.

Topographic elevations within the property range between 400 meters above sea level ("masl") to 450 masl.

Accessibility

The Gahcho Kué Project occurs at the informally-named Kennady Lake, 20 km north of tree line with no permanent road access. Access to the Gahcho Kué Project is by float-equipped planes during summer months and ski- or wheel-equipped planes in winter. During winter, larger aircraft such as the Dash-7 and Super Hercules L100 Transport can operate from an artificially-thickened ice landing strip on Kennady Lake.

Helicopter pads are located within the base camp to support drilling and logistical operations. During the short 'shoulder seasons', access to the property is via a 1,000 ft long runway established on an esker at Kirk Lake Camp located approximately 26 km north of the Gahcho Kué Project; passengers and supplies are transferred to the site by helicopter.

During winter, a permitted 120 km winter ice road connecting the Gahcho Kué Project with the main Tibbitt Lake to Contwoyto Lake winter road is built, if required. The winter ice road supports shipment of fuel, heavy equipment, construction materials and bulk samples. The main winter ice road connects Yellowknife to the Snap Lake, Ekati, and Diavik mines from February to April each year to the extent that weather allows. The road is operated under a Licence of Occupation by the Joint Venture Partners who operate the Ekati (BHP Billiton), Snap Lake (De Beers Canada) and Diavik (Rio Tinto) mines.

Climate

As the Gahcho Kué Project is located 230 km south of the Arctic Circle, the climate is extreme and semi-arid. Temperatures range from -45°C to +25°C over a twelve-month period. Winter normally lasts from November to May and has average temperatures of about -20°C. Summer temperatures prevail from early July to mid-September, and average about 18°C. Freeze-up and ice break-up occur in November and June, respectively. Activities are possible on-site year-round.

Daylight hours range from near zero in mid winter (Winter Solstice) to effectively 24 hours (Summer Solstice). The spring and fall equinox occur in March and September respectively, marking the period when length of daylight and darkness are equal.

Infrastructure

Camp – A 124-person exploration camp was erected on the shore of Kennady Lake near the southeast edge of the postulated future limits of the 5034 pit. Living quarters are a mixture of four-person soft-shell cabins and skid-mounted dorm units, clustered with other detached buildings, including kitchen and dining room; recreation building; office building; core storage; men's and women's dry; waterless toilet system; fuel storage; shops; and warehouses. The camp is currently on care-and-maintenance.

Transport – Regular shipments of consumables and materials can occur over an annual winter road and, for year-round access and deliveries, by aircraft.

Power – There is currently no local electrical grid or power plant for power supply to site. Power generation for any planned mining operation is likely to be produced by an on-site diesel generation plant.

Communications – Current site communications comprise a satellite phone and internet connection.

Water – Process water for any planned mining operation may be obtained from open-pit water collection, recycling of process water, water management ponds and from re-treatment of water from waste piles. Hydrogeological studies are required to confirm whether there is adequate process water from these sources. Kennady Lake is the current source of potable water.

Tenure History

The Gahcho Kué Project was part of a larger group of mining claims, known as the AK Property, which currently consists of four remaining mining leases. The AK Property was initially staked in 1992 by Inukshuk Capital Corp., and optioned to Mountain Province Mining, Inc. (now Mountain Province Diamonds Inc.) later the same year.

On staking, the AK Property covered about 520,000 ha, and included the AK and CJ claims. The CJ claims substantially lapsed in November 2001, and the remaining CJ claims lapsed on August 17, 2002, leaving only the AK claims as current.

Additional partners in the AK Property included Camphor Ventures Inc. (“Camphor Ventures”), and 444965 B.C. Ltd, a subsidiary company of Glenmore Highlands Inc. (“Glenmore Highlands”). At the time, Glenmore Highlands was a controlling shareholder of Mountain Province Mining Inc. as defined under the Securities Act of British Columbia. The Glenmore Highlands subsidiary amalgamated with MPV in 1997, and Camphor Venture’s interest in the AK Property was acquired by MPV during 2007.

In 1997, Monopros (now De Beers Canada) joint ventured the property.

Mineral Tenure

The Gahcho Kué Project comprises four mining leases, 4199, 4341, 4200, and 4201, covering a total area of 10,353 hectares. The mining leases are 100% owned by De Beers Canada who holds them on behalf of the Gahcho Kué Joint Venture. The participating interest of each of Gahcho Kué joint venture party is governed by the 2009 Gahcho Kué Joint Venture Agreement, which supersedes the (2002) Gahcho Kué Joint Venture Agreement. The (2002) Gahcho Kué Joint Venture Agreement is registered against the mineral leases. The 2009 Gahcho Kué Joint Venture Agreement provides for De Beers Canada's participating interest to be 51% and MPV's interest (including Camphor's) to be 49% of the Gahcho Kué Project.

Annual lease payments, payable to the Receiver General Canada (Northwest Territories, c/o Mining Recorders Office), comprise $1.00 per acre for the duration of the 21-year lease period (note that fees are payable on acres, not hectares, in the Northwest Territories and Nunavut). Payments increase to $2.00 per acre if a second 21-year term is granted after application to the Northwest Territories Mining Recorder for the extension. Payments for the leases for 2007 totalled $10,353, and a similar amount is expected for each succeeding year. All mining leases were legally surveyed by licensed surveyors.

Agreements

The Letter Agreement, dated March 6, 1997, was entered into between Monopros Ltd. (a wholly-owned Canadian subsidiary of De Beers Consolidated Mines and now known as De Beers Canada), MPV, and Camphor Ventures. The parties amended the Monopros Ltd. Joint Venture Agreement in 2000, as a result of agreements reached at a meeting on March 8, 2000.

The Gahcho Kué Joint Venture Agreement became effective on January 1, 2002, was signed October 24, 2002. This 2002 Agreement provided that De Beers Canada could earn up to a 55% interest in the Gahcho Kué Project by funding and completing a positive definitive feasibility study. The 2002 Agreement also provided that De Beers Canada could earn up to a 60% interest in the Gahcho Kué Project by funding development and construction of a commercial-scale mine.

MPV acquired Camphor Ventures' interest in the joint venture in 2007.

An updated and amended joint venture agreement between De Beers Canada and MPV was executed effective July 3, 2009. The 2009 Gahcho Kué Joint Venture Agreement superseded the previous joint venture agreements. The 2009 Gahcho Kué Joint Venture Agreement maintains the Gahcho Kué Project ownership at 51% De Beers Canada and 49% MPV. Each party is responsible for funding their respective share of the Gahcho Kué Project development costs from January 1, 2009 onward, and each party shall receive a proportional share of the diamond production.

The 2009 Gahcho Kué Joint Venture Agreement also sets forth the amount of "allowable" expenses of exploration work between March 8, 2000 and December 31, 2008 previously funded by De Beers Canada, and sets forth a repayment schedule by MPV to De Beers Canada for their 49% share of the allowable expenses. The repayment schedule is triggered by milestone events with the final payment required to be made 15 months after the start of commercial production.

Permits

Exploration Programs

Exploration programs to date were conducted under the permits obtained from the appropriate authority, including:

- Indian and Northern Affairs Canada – Class A Land Use Permit
- Indian and Northern Affairs Canada – Type B Water Licence
- Workers’ Compensation Board (WCB), Mine Health and Safety – Drilling Authorization
- Indian and Northern Affairs Canada – Quarry Permit
- Indian and Northern Affairs Canada – Registration of Fuel Storage Tanks
- Prince of Wales Northern Heritage Centre – Archaeology.

Future Development

The Gahcho Kué Project is being reviewed and permitted under the Mackenzie Valley Resource Management Act. A list of the permits that may be required for Gahcho Kué Project development is presented in the 2010 Technical Report.

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Previous Work

There is no recorded exploration prior to 1992 for diamonds, base, or precious metals in the area covered by the Gahcho Kué Project. Exploration conducted on behalf of MPV by Canamera Geological Ltd. during 1995 resulted in the discovery of the 5034 kimberlite.

De Beers Canada became the operator of the property via a joint-venture agreement in 1997. Additional kimberlites, including Tesla, Hearne, and Tuzo were discovered the same year. Tesla, Tuzo, Hearne and 5034 form the main Gahcho Kué kimberlite cluster.

Summary of Exploration and Development Work Undertaken

Exploration and development work undertaken during 1997–2008 included:

- sediment sampling, including glacial till, sediment and outcrop sampling
- geological mapping
- airborne electromagnetic and ground geophysical surveys
- core drilling, including large diameter core mini-bulk sampling
- reverse circulation drilling, including mini-bulk and bulk sampling programs utilizing reverse-flood air-lift assist large diameter drill rigs
- geotechnical, hydrogeology, and civil engineering drilling
- micro- and macro-diamond sample processing and analysis
- diamond valuation and diamond breakage analysis
- bulk density determinations
- ore dressing studies
- construction of geological and micro-diamond grade models and Mineral Resource block models
- construction of density, geotechnical, and volume models
- conceptual mine plans
- conceptual process plant design.

A first-time Mineral Resource estimate was completed in 2003 to support a conceptual desktop study of the potential of these pipes. The study included Inferred Mineral Resources, considered too speculative geologically to have economic considerations applied to them. The study evaluated a conceptual open pit mining operation, using conventional truck and shovel equipment. A diamond recovery plant with a diamond recovery efficiency of not less than 98% by weight of free diamonds larger than the bottom cut-off size of 1.5 mm was designed, using established De Beers’ diamond value management principles. The study indicated that the net present value and internal rate of return were likely to be positive and supported continuing exploration and evaluation work.

The 2009 Technical Report supersedes the 2003 mineral resource estimate. The new information was a combination of additional diamond and geotechnical drilling completed since 2003, conceptual open pit and underground design work, supplementary metallurgical testing and optimization studies.

From 2003 to 2008, a number of additional desktop studies were completed that consider aspects of conceptual mining studies. These have comprised conceptual mining and processing considerations, evaluation of different potential input factors and assumptions, and alternatives to and variations and iterations within such plans, including:

- changes to Mineral Resource estimation methodologies and strategies
- changes to dilution and reconciliation strategies
- changes to diamond prices
- changes in allocations of planned drilling, or drilling locations

- changes to deposit sequencing
- changes to production rates
- changes in mining equipment strategies
- alternate pit configurations, including laybacks or pit wall slope changes
- changes to geotechnical or hydrological assumptions
- changes in short-term production
- proposed mill design throughput reviews and potential mill modifications
- process flowsheet development and flowsheet modifications
- stockpile throughput, allocations, and planned depletion rates
- review of different cash flow scenarios
- changes to allocations of capital expenditures to different years within conceptual mine plans
- modifications to sustaining capital and operating cost assumptions within conceptual mine plans
- changes to accounting and taxation assumptions in conceptual mine plans.

None of the above desktop studies completed provided for a sufficiently economic robust project.

Between August 2009 and November 2010, JDS was engaged to provide a feasibility study that outlined a sufficiently robust mine development plan. On October 15, 2010, JDS delivered the Definitive Feasibility Study report to the Gahcho Kué Joint Venture from which a detailed summary is provided in the December 1, 2010 Technical Report. The 2010 Technical Report outlined a plan that exceeds the hurdle rate required by the 2009 Gahcho Kué Joint Venture Agreement to proceed with mine development.

Geology

This excerpt from the 2010 Technical Report was taken from the 2009 Technical Report. JDS reviewed the 2009 Technical Report and believes the information contained in this section to be accurate.

The Gahcho Kué kimberlite cluster occurs in the southeast Slave Craton.

Several kimberlite bodies were discovered and delineated by drilling. The 5034, Hearne North, Hearne South, and Tuzo pipes have the most attractive grades and tonnages delineated to date. Of the larger kimberlites on the property, the 5034 kimberlite is interpreted as forming an irregular hypabyssal root zone, Hearne and Tesla as transitional diatreme to root zones and Tuzo as the deeper part of a diatreme zone (Tesla is not included in the Gahcho Kué Mineral Resource because of its small size (0.4 ha) and relatively low-grade).

The 5034, Hearne, and Tuzo kimberlites have contrasting pipe shapes. The West Lobe, Centre Lobe, and eastern portion of the North-East Lobe of the 5034 kimberlite sub-crop below lake-bottom sediments; the northern portion of the 5034 North-East Lobe (referred to as the North Lobe) is a blind lobe overlain by approximately 80 m of in-situ country rock. The 5034 pipe is dominantly infilled with hypabyssal kimberlite (“HK”). Hearne South is a roughly circular pipe and smaller than Hearne North, which is a narrow elongated pipe. Hearne South is infilled predominantly with tuffisitic kimberlite breccia (“TK”); Hearne North is infilled with approximately equal amounts of HK and TK. Tuzo is characterized by smooth, steep-sided pipe walls and is predominantly infilled with TK with HK at depth.

In most cases, the top of the kimberlites occur between 380 and 390 masl. Except for the 5034 North Lobe, which intrudes 70 to 80 m below a peninsula, the kimberlites subcrop at the bottom of Kennady Lake, covered by 10 to 15 m of water and between 5 to 15 m of glacial lake sediments. The kimberlites are surrounded laterally by granite and granite-gneiss country rock.

In the 2009 Technical Report, AMEC Americas Limited determined that the geological understanding of the deposit setting, lithologies, and kimberlite type distributions was adequate to support Mineral Resource estimation. Understanding of diamond distributions within each kimberlite type, as well as the style of mineralization were sufficient to support Mineral Resource estimation.

Drilling and Sampling

Drilling completed to date on and surrounding the Gahcho Kué kimberlite cluster totals 504 drill holes (96,493 meters). An additional 50 drill holes were completed on exploration targets located away from the Gahcho Kué cluster. Core holes included PQ (985 mm), HQ (63.5 mm) and NQ (47.6 mm) core sizes, and 76 mm tricone drilling for overburden. RC drill diameters included 140 mm, 149 mm, 324 mm, 334 mm and 610 mm sizes.

Exploration drilling programs were performed during 1995-2003 around the Gahcho Kué kimberlite cluster to test geophysical anomalies, discover kimberlites, define pipe boundaries and morphology, delineate internal geology and provide large diameter reverse circulation (“RC”) drill (“LDD”) mini-bulk samples for value and grade evaluation purposes.

Drilling between 2004 and 2008 comprised LDD and large diameter core (“LDC”) mini-bulk sample, programs, core drilling to provide information to support advanced evaluation geology, Mineral Resource estimation and ore dressing studies, civil engineering, geotechnical, hydrological, and geothermal core drilling programs. These drill programs also provided core that was used to inform and support environmental baseline studies.

5034

Canamera Geological Ltd. (“Canamera”) conducted the earliest drilling and discovered the 5034 kimberlite. Drilling in 1995 included 39 delineation NQ core holes (6,522 m). Since then, small-diameter NQ core drilling was used extensively to test kimberlite indicator mineral trains and geophysical anomalies in addition to delineation of the 5034 kimberlite.

Large diameter core drilling was used to collect small mini-bulk samples from 5034. In 1996, Canamera obtained PQ-sized core samples (85 mm diameter), and in 2007, the Gahcho Kué Project obtained 149 mm diameter LDC samples. The LDC samples provide additional information (macro-diamonds) regarding the diamond content of the pipes.

Large diameter reverse circulation drilling was used to collect kimberlite mini-bulk samples. LDD programs have included smaller scale 140 mm (5.5-inch) diameter drillholes in 1998, 311 mm (12.25-inch) drill holes in 1999, to the largest employed, the 610 mm (24-inch) diameter drill holes in the 2001, 2002, and 2008 mini-bulk sampling programs. The LDD mini-bulk sample programs obtained macro-diamonds for grade and revenue estimation.

The 1998 and 1999 drilling focused on the 5034 West, Centre and East lobes; in 2001 the East Lobe and the west neck of the Centre Lobe were drilled; in 2002 work focused on the narrow corridor drilled previously in 1999 through the West and Centre lobes. There was one delineation NQ core hole drilled by Gahcho Kué Joint Venture at 5034 in 2003.

In 2004, 13 core holes drilled into the 5034 kimberlite as part of pit geotechnical, hydrogeology, and ore dressing studies (“ODS”). In 2005, a single core hole for hydrogeology studies drilled through the East Lobe of 5034, and two core holes were drilled at the North Lobe of 5034 to provide additional geological data. A substantial core program followed this in 2006 that comprised 13 HQ core holes for pit geotechnical, pipe volume delineation, and geological investigations. The last campaign of core drilling was conducted in 2007 with five HQ core holes being drilled to provide geological data from the 5034 East Lobe and 5 LDC holes (149 mm, 5.875-inch) drilled into the 5034 North Lobe to obtain a small parcel of macro-diamonds for comparative purposes.

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Hearne

A total of 24 core holes were drilled in and around the Hearne kimberlite during 1997-2003 for delination. In 1998, 19 LDD holes (140 mm diameter) were drilled into the Hearne kimberlite to test the diamond grade.

In 1999, 10 LDD (311 mm diameter) holes were drilled into Hearne to obtain macro-diamonds for initial revenue estimation. In 2001, 5 LDD (610 mm diameter) holes were drilled into Hearne North, and 6 more LDD (610 mm diameter) holes tested in 2002, to increase the parcel of macro-diamonds available for revenue estimation.

In 2004, 14 NQ core holes were drilled into the Hearne kimberlite as part of pit geotechnical and ODS programs. In 2005 a single core hole was drilled for hydrogeological studies, and in 2006 a single core hole was drilled to support pit geotechnical studies.

Tuzo

Between 1997 and 1999, 7 NQ and 3 NQ3 core holes were drilled into Tuzo. All of these were angle holes collared outside the kimberlite body and drilled into, and sometimes through, the kimberlite. In 2002, 7 vertical HQ core holes were drilled into the pipe. LDD mini-bulk sample drilling took place in 1998 and 1999. Drilling to a maximum depth of 166 m, 18 LDD holes (140 mm diameter) were completed in 1998, and an additional 11 LDD holes (311 mm diameter) were completed in 1999 to a maximum depth of 300 m.

In 2004, 2 HQ core holes were drilled at Tuzo as part of a pit geotechnical study. This was followed by a 16-hole HQ core program in 2006 to provide pipe delineation and geological data and pilot holes. Two 610 mm holes were drilled in 2006 to provide samples. In 2007, a grid of 27 HQ core holes was completed to provide additional geological and pipe volume delineation data. The final resource drilling at Tuzo was an LDD mini-bulk sample program conducted in 2008 with 9 holes (610 mm) completed to provide additional macro-diamonds for diamond revenue estimation.

AMEC's Assessment

This excerpt from the 2010 Technical Report was taken from the 2009 Technical Report. JDS reviewed the 2009 Technical Report and believes the information contained in this section to be accurate.

AMEC assessed the exploration results to be appropriate to the style of mineralization and adequate to support Mineral Resource estimation. Drill hole types and orientations were appropriate for the type of mineralization.

Small-diameter core holes defined the limits of the kimberlite bodies. Large-diameter core and reverse circulation drilling provided mini-bulk samples of kimberlite material for macro-diamond extraction. Micro-diamonds extracted from the small-diameter cores drilled to define the limits of the deposit. Three diamond breakage studies indicated that breakage was about 10–15% that is typical for this type of drilling program. The diamond parcels obtained in 2007–2008 were not evaluated for diamond breakage.

AMEC also assessed that the sampling and sample lengths were appropriate for the type of mineralization. Core sample lengths were somewhat variable during the early years of the Gahcho Kué Project. Later in the Gahcho Kué Project, core sample lengths were standardized at 12 m. These standardized samples provided most of the data used for the Mineral Resource estimates reported in the 2009 Technical Report.

Core and cuttings logging met and typically significantly exceeded industry practices. Core was quick-logged on site, and the kimberlite intersections were transported to De Beers' core logging facility in Sudbury, Ontario where experienced geologists log kimberlite type, mineral and inclusion types and concentrations, and structures. AMEC assessed that geotechnical work to date was appropriate for the stage of the Gahcho Kué Project and type of mining planned. Geotechnical logging of exploration core is a routine procedure performed by geologists trained in the logging methods required. A number of core holes were drilled specifically to obtain geotechnical data. Collar and downhole surveys were performed using industry-standard methods and instruments.

AMEC determined that the analytical and diamond recovery procedures were adequate to support Mineral Resource estimation. Macro-diamond and micro-diamond extractions were performed using procedures standard to the industry. Micro-diamonds were recovered from core using either caustic fusion or acid dissolution procedures. Both are standard to the industry, although caustic fusion is the most common procedure. Macro-diamonds are extracted using small-scale diamond recovery plants. Geochemical samples were analyzed using standard procedures and instrumentation. Density determinations were performed using standard procedures, and the number of density data is adequate to support Mineral Resource estimation. Most of the density data were obtained using a water immersion procedure standard to the industry. Some of the data were obtained using geophysical methods, and some were obtained by water displacement methods. Quality control during drilling, sampling, and sample analysis is adequate and reflects industry best practices. Quality control of diamond extractions consists of spikes using marked diamonds and tailings audits of a portion of the samples.

Sample and diamond security throughout the exploration process was determined by AMEC to be excellent and consisted of rigorous chain-of-custody procedures, multiple locks requiring at least two persons to open critical areas or containers, cameras in all plants and processing areas, and dedicated security personnel at all plants and processing areas. Shipping of diamonds and diamond concentrates conforms to requirements of Kimberley Process chain-of-custody procedures.

Geological Setting

This excerpt from the 2010 Technical Report was taken from the 2009 Technical Report. JDS reviewed the 2009 Technical Report and believes the information contained in this section to be accurate.

Gahcho Kué Kimberlites

The main Gahcho Kué kimberlite cluster comprises four pipes; the Hearne, 5034, Tuzo, and Tesla bodies. The Hearne Pipe, most of the 5034 Pipe, and the Tuzo and Tesla pipes occur under Kennady Lake, which has an average depth of 8 m.

Gahcho Kué kimberlites are overlain by varying thickness of glacial boulder outwash and lake sediments (averaging 10 m thick), and have a combined water and sediment cover as much as 25 m thick.

Hearne Kimberlite

Two bodies comprise the Hearne kimberlite, Hearne South and Hearne North. The bodies have smooth, steep-sided walls, and cover an area of about 1.5 ha. Hearne South is a roughly circular pipe, whereas Hearne North is a narrow,

elongate pipe trending north–south. The pipes may join at depth. The width of country rock between the two bodies varies from a minimum of approximately 20 m at the sub-crop to approximately 70 m at depth. Hearne North measures a maximum of 250 m x 50 m north–south. Hearne South has a dimension of about 80 m x 90 m at surface.

The present pipe geological model for Hearne South extends to 225 masl; there is no drill information below this level. At Hearne North, the pipe narrows to less than 10 m wide in the centre of the body at approximately 130 m below lake-surface. There is also evidence at the north and south ends of the body that the pipe extends below 115 masl.

The distance from the south end of Hearne to Tuzo is about 2 km.

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5034 Kimberlite

The 5034 kimberlite is a highly irregularly-shaped pipe and dyke complex, which is comparable to kimberlite root zones elsewhere and has a surface area of approximately 2.1 ha (West, Centre and East Lobe).

The 5034 kimberlite is modelled as a semi-continuous occurrence composed of five discrete kimberlite bodies, three of which are modelled as joined at the subcrop to form one main continuous body, with two small outlying satellite pipes.

The five modelled kimberlite bodies are referred to as follows:

- 5034 South Pipe (that occurs along an interpreted dyke, the "Southwest Corridor", that is also modelled incorporating the Wallace and Tuffisitic Kimberlite BBB drill core intersections)
- 5034 "Main" West Lobe
- 5034 "Main" Centre Lobe
- 5034 "Main" North-East Lobe (i.e., East Lobe and North Lobe)
- 5034 North Pipe.

The main part of the 5034 occurrence that reaches the surface occurs under Kennady Lake and can be divided into three lobes: West, Centre, and East. These three lobes are joined at the surface, but separate at depth. The Centre and East lobes are modelled separately at shallow depth, but rejoin at greater depth producing what appears to be a window of granite within the kimberlite. The East and North lobes are joined at depth, geologically continuous, and are collectively referred to as the North-East Lobe. The surface measurements of the three lobes of the 5034 Main Pipe are approximately as follows:

- West Lobe – 125 m x 45 m
- Centre Lobe – 125 m x 80 m
- East Lobe – 85 m x 65 m.

The northern portion of the 5034 North-East lobe, the North Lobe, is blind, and occurs under 60 m to 90 m of country rock cap. Approximately half of this northern lobe lies below the lake bed and half beneath the main peninsula. The blind northern portion of the 5034 North-East Lobe measures 240 m long and varies from approximately 20 to 50 m wide, averaging 30 m wide. A combined internal geology model is developed for the 5034 North-East Lobes. There are four major kimberlite types, three of which occur across both lobes.

Tuzo Kimberlite

The overall surface area of the Tuzo Pipe is about 1.2 ha, which is covered by as much as 25 m of water of and glacial overburden. The kimberlite body comprises various fragmental and coherent kimberlites, and it contains abundant inclusions of the surrounding granitic country rock. The 2007 drill program improved the definition of the shape of the

pipe, which is unusual as it widens towards depth from 125 m in diameter near the surface to about 225 m diameter at 300 m depth. Tuzo geology model commences about 25 m below lake level (lake level 420.9 masl) to 354 m below lake level (66.9 masl).

All bodies remain open at depth.

Data Verification

Independent data verifications were undertaken on a number of occasions between 1999 and 2008:

- 1999, 2004, 2007 – independent consultants made site visits to review quality assurance/quality control ("QA/QC")
- 1999 – external consultant audit of the 1999 evaluation program

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- 2000 – geology (petrological) peer review
- 2004 – geotechnical and hydrogeology consultants QA/QC site visit, internal and external Mineral Resource evaluation data base audits, geology (petrological) peer review, Gemcom® three-dimensional (“3D”) model peer review
- 2007 – internal and external petrological peer reviews; external verification of macro-diamond resource evaluation data set
- 2008 – external review of 2003 Technical Report resource estimation and density (rock density) models.

Resource evaluation data base verification included:

- audits of drill collar locations and lengths
- down-hole survey data
- geological logs
- bulk density data
- macro-diamond data.

Diamond Valuations

The Qualified Persons are not able to apply quality control measures to the valuation process performed by either De Beers or WWW.

The reason for this is that diamond valuation is, at best, only partially analytical (in the way that a gold assay process can be termed analytical), as the diamonds are sieved and subjectively classified by colour, clarity, and other factors. The dollar per carat determinations for various stones, however, is ultimately governed by the valuator’s price-book. This part of the process is proprietary, governed by a given valuator’s view of the marketplace and can vary from valuator to valuator, particularly for larger stones. Even in larger parcels, valuators must then ‘model’ or extrapolate values in the larger stone size classes where there may be few representatives. The methodology for modelling is also proprietary.

These diamond valuation procedures do not lend themselves to quality control measures that a qualified person could apply as with a commercial assay laboratory. At every step, the QPs are relying on the valuator’s opinions of the diamond market and their subjective view of diamond values.

The Qualified Persons also rely on the valuators models which are heavily dependent on their view of the diamond market, their proprietary estimates of the likelihood of finding larger stones in the deposit because of sample-size support, and the perceived value of those larger stones.

The culmination of the process is the average prices for given zones, lobes or pipes. The heavy dependence of the process on economic market assessments, and the proprietary nature of the valuators' assumptions and methods, materially affects the quality of, and confidence in, the Mineral Resource estimate. In this way, the valuations used in the Mineral Resource assessments are markedly different than the concept of analytical mineral assays in, for instance, a precious metal project. The proprietary nature of the processes employed for valuations limit any quantitative assessment of the added risk to the Gahcho Kué Project. Other than reviewing the De Beers Canada data and the WWW report for transcription errors in the transfer of the valuation figures into the database, no other data verification procedures can be applied.

Diamond valuators are experts, but not Qualified Persons, and the Qualified Persons preparing the Mineral Resource estimates and assessing the reasonable prospects for economic extraction have had to completely rely on the De Beers Canada and WWW diamond values provided.

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Mineral Resource and Mineral Reserve Estimates

Mineral Resource Summary

This Mineral Resource Summary excerpt and summary from the 2010 Technical Report was taken from the 2009 Technical Report. JDS reviewed the 2009 Technical Report and believes the information contained in this section to be accurate.

Cautionary Note to U.S. Investors concerning estimates of Indicated and Inferred Resources. This section uses the terms "indicated" and "inferred resources." We advise U.S. investors that while those terms are recognized and required by Canadian regulations, the SEC does not recognize them. "Inferred resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases.

U.S. investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.

U.S. investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally minable.

The estimation and classification of the mineral resources was completed by AMEC and are summarized in Table 1.

Table 1

Resource	Classification	**Volume (Mm^3)**	Tonnes (Mt)	Carats (Mct)	Grade (cpht)
5034	Indicated	5.1	12.7	23.9	188
	Inferred	0.3	0.8	1.2	150
Hearne	Indicated	2.3	5.3	11.9	223
	Inferred	0.7	1.6	2.9	180

Tuzo	Indicated	5.1	12.2	14.8	121
	Inferred	1.5	3.5	6.2	175
Summary	Indicated	12.4	30.2	50.5	167
	Inferred	2.5	6.0	10.3	173

Notes:

1) Mineral Resources are reported at a bottom cut-off of 1.0 mm; cpht = carats per hundred tonnes.

2) Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability

3) Volume, tonnes, and carats are rounded to the nearest 100,000

4) Tuzo volumes and tonnes exclude 0.6 Mt of a granite raft

5) Diamond price assumptions used to assess reasonable prospects of economic extraction reflect mid-2008 pricebooks with a 20% increase factor. The prices assumed, on a per pipe basis (in US$), equate to $113/ct for 5034, $76/ct for Hearne and $70/ct for Tuzo.

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Mineral Reserves

Cautionary Note for U.S. Investors

The SEC Guidelines define the following with respect to mining operations:

Reserves. **That part of a mineral deposit which could be economically and legally extracted or produced at the time of reserve determination.**

Proven (Measured) Reserves. **Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves is well-established.**

Probable (Indicated) Reserves. **Reserves for which quantity and grade and/or quality are computed from information similar to that used for proved (measured) reserves, but the sites for inspection, sampling, and measurements are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.**

In Canada, a Mineral Reserve is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Feasibility Study includes adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

Mineral Reserves are those parts of Mineral Resources which, after the application of all mining factors, result in an estimated tonnage and grade which is the basis of an economically viable project. The project must take account of all relevant processing, metallurgical, economic, marketing, legal, environmental, socioeconomic and governmental factors. Mineral Reserves are inclusive of diluting material that will be mined in conjunction with the Mineral Reserves and delivered to the treatment plant or equivalent facility. The term ‘Mineral Reserve’ need not necessarily signify that extraction facilities are in place or operative or that all governmental approvals have been received. It does signify that there are reasonable expectations of such approvals.

Mineral Reserves are subdivided in order of increasing confidence into Probable Mineral Reserves and Proven Mineral Reserves. A Probable Mineral Reserve has a lower level of confidence than a Proven Mineral Reserve.

The reserve classifications used in this report conform to the CIM classification of NI 43-101 resource and reserve definitions and Companion Policy 43-101CP and are listed below.

A 'Proven Mineral Reserve' is the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified. Application of the Proven Mineral Reserve category implies that the Qualified Person has the highest degree of confidence in the estimate with the consequent expectation in the minds of the readers of the report. The term should be restricted to that part of the deposit where production planning is taking place and for which any variation in the estimate would not significantly affect potential economic viability.

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A ‘Probable Mineral Reserve’ is the economically mineable part of an Indicated Mineral Resource, and in some circumstances a Measured Mineral Resource, demonstrated by at least a Preliminary Feasibility Study. The study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

The information that follows is excerpted from the 2010 Technical Report as prepared by JDS.

Open Pit Mineral Reserves

The detailed pit designs determined the mineral reserve estimate for each pipe as summarized in Table 2. A mining recovery of 100% was used in mine design and planning to determine the mineral reserve estimate. The full mining recovery reflects 1.5 m of waste dilution being added to the circumference of the kimberlite pipes. Therefore, mining ore recovery is 100% because the plan mines an additional 1.5 m of material past the ore contact around the pipe on every bench.

Table 2

Pipe	Classification	Tonnes (Mt)	Carats (Mct)	Grade (cpt)
5034	Probable	13.2	23.3	1.77
Hearne	Probable	5.4	11.5	2.10
Tuzo	Probable	12.6	14.2	1.13
Total	Probable	31.3	49.0	1.57

The Mineral reserves identified in Table 2 comply with CIM definitions and standards for an NI 43-101 Feasibility Study. Detailed information on mining, processing, metallurgical, and other relevant factors are contained in the followings sections of this report and demonstrate, at the time of this report, that economic extraction is justified.

The economic viability of the Gahcho Kué Project is presented in the economic analysis section of the full 2010 Technical Report, and confirms the probable reserve estimates meet and comply with CIM definitions and NI 43-101 standards. At the time of this report, and currently, the Gahcho Kué Project is economically viable using current diamond prices and, JDS believes, prevailing long-term price estimates.

The 2010 Technical Report did not identify any mining, metallurgical, infrastructure or other relevant factors that may materially affect the estimates of the mineral reserves or potential production.

Data Interpretation

The Qualified Persons, as authors of the 2010 Technical Report, have reviewed the data for the Gahcho Kué Project and are of the opinion that:

- Mining tenure held by De Beers Canada on behalf of the Gahcho Kué Joint Venture is valid and sufficient to support Mineral Reserves and plans for mine development. The Gahcho Kué Joint Venture has taken appropriate steps to insure extension of the leases which will remain valid for several years. Surface rights have not, as yet, been acquired but this in not viewed by JDS as a significant obstacle to further development of the Gahcho Kué Project. Those rights can be obtained by application to the Crown and are part of the normal permitting processes.

- At this time, all permits required for ongoing exploration are in force. Permits required for construction and operation were identified and the process for obtaining those permits defined.
- The 2009 Technical Report which provided Mineral Resource estimations and resources models suitable for feasibility project work were completed to acceptable standards.
- Metallurgical testwork is appropriate for the stage of the Gahcho Kué Project and is adequate to support Mineral Reserve estimation, Gahcho Kué Project feasibility, and economic analysis.
- Estimates of Mineral Reserves conform to industry-standard practices. Mine plans, dilution and economic parameters applied to resource estimates have been prepared to industry standard practices.
- Pit slope stability analysis work has been done to industry standards and conclusions are supported by practices at similar sized operations in the area.
- Mineral reserves support a 3M tonne per year operation with a mine life of 11 years.
- Mine plans use traditional open pit mining utilizing proven equipment.
- Process plant design has been adequately defined for cost estimating purposes.
- Mine infrastructure has been adequately designed and estimated in the feasibility study.
- Sound environmental management plans have been developed for the feasibility study.
- Progressive reclamation plans are included in the feasibility study.
- Mine closure plans have been developed.
- The Gahcho Kué Project is sufficiently robust for proceeding into a staged development program commencing with environmental permitting and detail design phases as precursors for mine construction and operations.

Feasibility Study Conclusions

(All amounts, unless otherwise indicated, are in Canadian dollars.)

The 2010 Technical Report represents an economically viable, technically credible and environmentally sound development plan for the Gahcho Kué Project. The Gahcho Kué Project is economically viable, generating $4,143 million in realized value (“RV”) revenues over an 11-year mine life resulting in a 20.7% internal rate of return (“IRR”) (including agreed historic “sunk” costs) and a $136 million net present value (“NPV”) at 15%. Excluding sunk costs, the Gahcho Kué Project yields a 33.9% IRR and a $277 million NPV. Diamond values averaged US$74.52 per carat over the life of the mine. Total life-of-mine capital costs are estimated at $776.5 million consisting of $141.5 million in sunk costs; $549.5 million initial capital; $49.4 million working capital; and $36.1 million in sustaining and closure costs. Total life-of-mine pre-tax cash operating costs are estimated at $1,522 million, which equates to $48.68 per tonne processed or $31.04 per carat recovered.

The Gahcho Kué Project is technically credible, utilizing designs and practices that are proven in the Canadian diamond industry. The Gahcho Kué Project design is based on open pit mining of the 5034, Hearne and Tuzo deposits in a sequential fashion. Mine plans call for the extraction of 234 metric tonnes (“Mt”) of waste and 31.3 Mt of ore over a 13-year period utilizing standard drill/blast - truck/shovel equipment and pit designs that are similar to other open pit diamond mines operating in the area. Ore will be fed to a 3.0 Mt per annum (“Mt/a”) processing plant with three stages of crushing, dense media separation and X-ray/grease belt diamond recovery circuits. Process plant designs and equipment selection are based on experience from other operations and utilize proven suppliers. Security designs are based on De Beers Canada’s standards and practices.

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Supporting infrastructure includes a 14.1 megawatt packaged diesel power plant, 1,350 meter gravel airstrip, five-bay truckshop, emulsion plant, 40 million litres of fuel storage and a 432 bed accommodation/office complex. The primary facilities are interconnected by utilidors (enclosed corridors) providing interior access for personnel. These basic fit-for-purpose designs and plans are prepared by Feasibility Study project personnel that have designed, constructed and operated similar facilities at other diamond mines operating in the area. Likewise, the suppliers, contractors and service providers nominated in the Feasibility Study are providing similar services for other mines in the north. Cost estimates are built up from first principles and are benchmarked against relevant operations. Appropriate contingencies have been applied. De Beers Canada operates the Snap Lake mine in the NWT and has provided estimates of general and administrative costs, payroll costs, licenses and fees. De Beers Canada has a trained workforce that can assist in the design, commissioning, training and operation of the Gahcho Kué mine.

The Gahcho Kué Project is environmentally sound, utilizing simple and proven management plans. Water management plans are adaptations of plans used successfully at other diamond mines. At Gahcho Kué, all potentially contaminated water is kept within a controlled management basin formed by natural drainage patterns. Excess storage capacity allowances provide for operational flexibility and contingencies. Normal mine operations incorporate a program of progressive reclamation that minimizes costs and allows time monitoring of performance. The mined out 5034 and Hearne pits are used for waste storage during the later years of the mine life providing ample time for the completion of reclamation of waste storage areas used in the earlier years. A viable plan for fish habitat compensation has been developed and provides for no-net-loss of habitat. New lake areas for fish habitat replacement are created at the beginning of operations providing ample time to monitor and measure effectiveness during the mine operation period.

The Gahcho Kué Project provides socioeconomic benefits. The mine will create close to 1,000 jobs during the two-year construction phase and some 400 permanent jobs during the 11-year operational phase. Additional employment will be created by service providers to operations. Territorial and Federal taxes and royalties are estimated to be close to $800 million. In addition, property and payroll taxes will add significant tax revenues to the local municipality. Impact benefit agreements are planned for the First Nation groups in the area.

Risks for the Gahcho Kué Project are identified and considered reasonable. The greatest economic risk/opportunity is related to diamond values. Over the past several years, rough diamond demand/prices/sales have experienced unprecedented volatility as a result of the world economic crisis. Currently demand is strong, and the Gahcho Kué Joint Venture partners forecast a 1% real growth in diamond prices over the life of the Gahcho Kué Project.

The Gahcho Kué Project also faces environmental and regulatory risks, as the Gahcho Kué Project must proceed through the Mackenzie Valley Environmental Impact Review Board environmental screening process. There are risks that the permitting process might take longer than the scheduled 24 to 27 months, causing delays in construction start-up, and/or the regulatory authorities might require significant modifications to be made to the plans, which will affect designs and costs. In this event, a decision might even be taken to not proceed with the Gahcho Kué Project.

Economic Analysis - Summary

The financial evaluation of the Gahcho Kué Project has been undertaken on an after-tax, unleveraged, real rate of return to the Gahcho Kué Joint Venture partners as a whole. The analyses assumed that three kimberlite ore bodies will be developed, with production on the first pipe (5034) starting in January 2015. Only probable reserves (derived from indicated resources) were used in the 2010 Technical Report. Production for the base case ceases part way through the 11th year of production. All production, costs, and revenues are based on calendar fiscal years.

The Gahcho Kué Project is economically viable and the projected returns surpass the hurdle rates established by the 2009 Gahcho Kué Joint Venture Agreement. The Gahcho Kué Project provides a real rate of return to the partners of 20.7% and a real net present value at 15% of $135.9 million in calendar 2010 Canadian dollars. After excluding sunk costs incurred to September 30, 2010, the Gahcho Kué Project provides a real rate of return of 33.9% and a real NPV of $277.4 million at a discount rate of 15%. The Gahcho Kué Project is most sensitive to changes in diamond prices, with real dollar returns decreasing the IRR by 3.4% for a 10% reduction in prices and increasing the IRR by 3.0% for a 10% increase in prices. The Gahcho Kué Project shows a lesser sensitivity to capital with returns changing by 1.3% for a 10% change in either direction for capital. The sensitivity to operating cost is about 1.2% in the IRR rate for a 10% in operating costs.

Table 3 provides a summary of selected financial model inputs and the corresponding results. All costs are quoted in July 2010 Canadian dollars unless otherwise indicated.

Table 3

Description	3.0 Mt/a Case
Material Processed – Annual million tonnes (Mt)	3.0
Material Processed – Life-of-mine million tonnes (Mt)	31.3
Sunk Costs Exploration and Development pre-July 2009 ($millions)	120.0
Sunk Costs Feasibility Study and Permitting– 2009-2010 ($millions)	21.5
Initial Gahcho Kué Project Capital – 2011 to 2014 ($millions)	549.5
Working Capital (4 months of operating costs) ($millions)	49.4
Sustaining Capital including Mine Closure ($millions)	36.1
Operating Costs – Average over life-of-mine ($/tonne processed)	48.68
Real Diamond Price Escalation – 2010 forward (%/annum) [amount over U.S. Consumer Price Index]	1.00
Projected Mine Life (years)	11.0
Processing Diamond Cut-off Size (millimeter)	1.0
Inflation used for Escalation/De-escalation – (%/annum)	1.80
Total Carats Recovered (millions)	49.0
Diamond Price (RV life-of-mine Escalated, U.S.$/carat)	102.48
Diamond Price (RV life-of-mine Un-Escalated, U.S.$/carat)	74.52
Gahcho Kué Project IRR – Including sunk costs (%)	20.7
NPV @ 5% – Including sunk costs ($millions)	650.5
Gahcho Kué Joint Venture Required IRR Hurdle Rate (%)	15.0
Gahcho Kué Project IRR – Sunk costs not included (%)	33.9
NPV @ 5% – Sunk costs not included ($millions)	792.0

The Gahcho Kué Project is a joint venture. All of the numbers presented in this table are based upon 100% ownership and do not include any management fees or financing costs that are payable between the joint venture partners. Furthermore, the Gahcho Kué Project is evaluated on a 100% equity basis only, and excludes any financial leveraging effects, as well as any interest expense items that could impact taxable income and/or provide interest deduction tax shields.

One primary case has been considered, with variations from this base case model assessed as sensitivities. The base case uses an open pit mining operation with a processing throughput of 3.0 Mt/annum using probable reserves and is based on a nominal +1.00 mm carat cut-off size for the processing plant. The variations of the base case are as follows:

- project delay of one year due to permitting with the same throughput of 3.0 Mt/annum for base case

- sensitivity analyses on diamond prices, capital costs, and operating costs.

The financial analysis is based on mineral reserves, with the objective of demonstrating economic viability; therefore, the analysis is classified as a "feasibility study" under NI 43-101. The feasibility study is a precursor to formal permit applications, definitive engineering design, formal commitment to construct, and includes mineral resources that are sufficiently defined geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves.

GAHCHO KUÉ PROJECT LOCATION MAP (2007)

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Gahcho Kué Leases (2011)

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GAHCHO KUE MAP – LOCATION OF PIPES

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Information Prepared by the Company

The following information is prepared by the Company. The Company has issued press releases commenting upon recent results and activities for the Gahcho Kué Project. Such disclosure has been reviewed by Carl G. Verley, P.Geo., or Daniel D. Johnson from JDS (for disclosure relating to the Definitive Feasibility Study), who serve as the Qualified Persons in relation to such disclosures.

Tuzo Deep Drilling Program

In September 2011, the Operator of the Gahcho Kué Project, De Beers Canada, began a five-hole drilling program at the Tuzo kimberlite. As at March 1, 2012, the Company reported that three of the five planned deep drill holes had been completed and the final two holes are underway, with drilling expected to be completed in April 2012. The Tuzo Deep Drilling Program aims to define a resource between 350 and 750 metres.

2010 Independent Diamond Valuation

The market for rough diamonds is subject to strong influence from demand in the United States, which is the largest market for polished diamonds, and supply from major producers such as Alrosa of Russia and Debswana of Botswana. The price of diamonds dropped sharply after September 11, 2001. Between 2003 and 2006, diamond prices increased on average by approximately 15%. In 2007, rough diamond prices increased by an average of 25%, and in the first five months of 2008, by a further 11%. From about mid-2008 to mid-April 2009, rough diamond prices fell sharply as a consequence of the global economic recession. Starting in mid-April 2009, rough diamond prices have started to recover, tempered by concerns of consumer buying confidence and behaviour. Regardless, continuing trends suggest an over demand for rough diamonds in the mid- to long-term.

On August 4, 2010, the Company announced the results of an updated independent diamond valuation of the diamonds recovered from the Gahcho Kué Project during the exploration phase. The valuation was conducted by WWW International Diamond Consultants Ltd. (“WWW”) and took place at the London offices of the Diamond Trading Company in early April 2010. All diamond values presented below are based on the WWW Price Book as at April 13, 2010.

The independent diamond valution resulted in substantially the same actual price of the Gahcho Kué diamonds to US$134 per carat compared to the 2008 independent diamond valuation done by WWW International Diamond Consultants Ltd. for the Company.

Table 4 below reflects the actual price per carat for the parcel of 8,243.56 carats of diamonds recovered from the Gahcho Kué Project.

Table 4

Actual Price US$/carat				
Pipe	Zone	Total Carats	$/Carat	Total
5034	Centre Lobe	633.80	80.23	$50,852
	West Lobe	1,119.40	79.63	89,134
	East Lobe	1,264.21	178.59	225,770
5034 Total		3,017.41	121.22	365,757
Hearne		2,906.45	60.44	175,654
Tuzo		2,319.70	243.03	563,750
Total		8,243.56	134.06	$1,105,161

Table 5 below presents models of the average price per carat (US$/carat) for each kimberlite lithology. The modeled price per carat is determined using statistical methods to estimate the average value of diamonds that will be recovered from potential future production from Gahcho Kué.

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Table 5

Modeled Average Price US$/carat						
	+1.00mm			+1.50mm		
Pipe	High	Model	Low	High	Model	Low
5034 NE Lobe	131	107	96	143	116	104
5034 Centre	122	100	91	137	113	102
5034 West	141	114	103	157	127	114
Tuzo	81	67	61	93	77	70
Hearne	82	68	62	93	78	71

Note: 1.50mm prices provided for reference purposes only.

In their report to Mountain Province, WWW stated: "The Tuzo sample and the 5034 East sample both contained one high value large stone. For Tuzo there was a 25.14 carat stone valued at $17,000 per carat and 5034 East had a 9.90 carat stone valued at $15,000 per carat. It is encouraging that such high value stones were recovered in samples of this size. If they are found in the same frequency throughout the resource then the modelled APs [Average Prices'] will certainly be towards the 'high' values."

2011 Independent Diamond Valuation

On May 5, 2011, the Company announced the results of an updated independent valuation of the diamonds recovered from the Gahcho Kué Project. The valuation was conducted by WWW International Diamond Consultants Ltd. and took place at the London offices of the Diamond Trading Company in early April, 2011. All diamond values presented below are based on the WWW Price Book as at April 11, 2011.

Importantly, for the first time, the Gahcho Kué diamonds were grouped into larger parcels, each parcel representing diamonds from the Hearne, Tuzo and the separate lobes of the 5034 kimberlite. In the opinion of WWW, grouping of the diamonds into larger parcels increased the accuracy of the diamond valuation.

The Company commented that the results of the independent diamond valuation reflect the strong performance of rough diamond prices since the previous valuation conducted on April 2010. Further, it noted that based on the analysis of leading diamond producers and analysts, the global diamond industry will experience peak diamond supply during 2011, with burgeoning demand – particularly from the robust Chinese and Indian markets – outstripping mine supply. There is a strong probability that rough diamond prices will continue to experience strong double digit

increases as production from aging mines decrease and new mine supply falls short of growing demand.

Table 1 below reflects the actual price per carat for the parcel of 8,317.29 carats of diamonds recovered from the Gahcho Kué Project.

Table 1

Actual Price US$/carat				
Pipe	Zone	Total	$/Carat	Total
5034	Centre/East Lobe	1,957.54	210	411,683
	West Lobe	1,132.14	108	122,676
Hearne		2,905.76	93	269,689
Tuzo		2,321.85	315	730,975
Total		8,317.29	$ 185	$1,535,024

Note: Total Dollars are the result of rounding.

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In their report to Mountain Province, WWW stated: "The most valuable stone is in the Tuzo sample. This 25.13 carat stone is the largest stone in all of the bulk samples. The stone is an octahedron of H/I colour which WWW valued at $20,000 per carat giving a total value of $502,600". WWW added: "The stone with the highest value per carat sample is a 9.90 carat stone in the 5034 C/E sample. This is a makeable stone of high colour (D/E) which WWW valued at $24,000 per carat giving a total value of $237,600".

Table 2 below presents models of the average price per carat (US$/carat) for each kimberlite. The modeled price per carat is determined using statistical methods to estimate the average value of diamonds that will be recovered from potential future production from Gahcho Kué.

Table 2

Pipe	High Model	Base Model	Low Model
5034 Centre	$ 169	$ 134	$ 116
5034 West	172	133	120
5034 North/East	196	144	123
Hearne	139	110	100
Tuzo	136	103	97
Average	$ 161	$ 122	$ 109

Note: 1 mm nominal square mesh

Diamond values are in US Dollars

For mine feasibility studies, WWW recommends using the base case models for defining the resources and reserves. The "high" and "low" models are included for sensitivity analysis.

The WWW averaged modeled price per carat for the Gahcho Kué kimberlites is $122, which represents a 41 percent increase over the WWW 2010 average price. The WWW models use size distribution models (carats per size class) developed by De Beers.

Definitive Feasibility Study

On September 1, 2009, the Company announced that the Gahcho Kué Joint Venture had appointed JDS, an independent engineering firm, to produce the Definitive Feasibility Study for the Gahcho Kué Joint Venture. The Definitive Feasibility Study was expected to take approximately twelve months to complete with a budget of approximately $10 million.

On October 21, 2010, in a press release titled "Mountain Province Diamonds Announces Positive Gahcho Kué Independent Feasibility Study", Mountain Province announced the results of the independent feasibility study. JDS led and prepared the feasibility study dated October 15, 2010, which was presented to the Gahcho Kué Joint Venture. The Company filed the 2010 Technical Report, representing a detailed summary of the Feasibility Study, on SEDAR and provided notification of such filing under Form 6K on EDGAR on December 3, 2010. See Item 4.D, Property Plant and Equipment, for a full summary of the 2010 Technical Report.

The following are the financial and project highlights from the 2010 Technical Report:

· Project IRR including sunk costs	20.7%*
· Project IRR excluding sunk costs	33.9%
· Initial project capital	$549.5 million
· Working capital	$49.4 million
· Sustaining capital including mine closure	$36.1 million
· Operating costs	$48.68 per tonne
· Project mine life	11 years
· Average annual production	3 million tonnes
· Total diamond production	49 million carats
· Average annual diamond production	4.45 million carats
· Diamond price	US$102.48 per carat**

*After taxes/royalties and unleveraged

**The base case model uses an average realized diamond price of US$102.48 per carat derived from the mean average between the modeled values of De Beers and WWW (based on their respective April 2010 price books) inclusive of a real 1% escalation over LOM less an assumed 4% marketing fee.

Permitting

In November 2005, De Beers Canada, as operator of the Gahcho Kué Project, applied to the Mackenzie Valley Land and Water Board for a Land Use Permit and Water License to undertake the development of the Gahcho Kué diamond mine. On December 22, 2005, Environment Canada referred the applications to the Mackenzie Valley Environmental Impact Review Board (“MVEIRB”), which commenced an Environmental Assessment ("EA"). On June 12, 2006, the MVEIRB ordered that an Environment Impact Review (“EIR”) of the applications should be conducted. The MVEIRB published draft Terms of Reference and a draft Work Plan for the Gahcho Kué Project in June 2007, and called for comments from interested parties by July 11, 2007.

The EIR is designed to identify all of the key environmental issues that will be impacted by the development of the Gahcho Kué diamond mine and to facilitate participation by key stakeholders in addressing these issues.

On December 17, 2007, the Company announced that the MVEIRB published the final terms of reference for the Gahcho Kué Environment Impact Statement (“EIS”) on October 5, 2007. On May 9, 2008, the Project Operator, De Beers, advised the MVEIRB that the filing of the EIS will be deferred to the fall 2008.

The feasibility study commissioned in August 2009 was expected to impact the final project description and the Project Operator, De Beers Canada, had previously advised the MVEIRB that submission of the EIS would be further

deferred pending the completion of an updated project description.

The final Gahcho Kué Project description was presented to the Gahcho Kué Joint Venture partners, and was incorporated into the EIS to be submitted to the MVEIRB before the end of 2010. Key elements of the project description include the following:

· Average annual production rate of approximately 3 million tonnes of ore;

· Life of mine from the open-pit resource of approximately 11 years; and

· Average annual production rate of approximately 4.45 million carats.

On November 5, 2010, the Company announced that the Operator of the Gahcho Kué Joint Venture, De Beers Canada, had notified the MVEIRB on November 3, 2010 that the Gahcho Kué EIS was on track for completion and submission before the end of 2010. The Company also announced that the submission of the EIS will result in the resumption of the environmental impact review by the independent administrative tribunal established under the Mackenzie Valley Environmental Resource Management Act.

On December 23, 2010, the Company, in a joint news release with De Beers Canada, announced that the EIS for the Gahcho Kué mine had been submitted to the Gahcho Kué Environmental Impact Review Panel (the "Panel") of the MVEIRB. The EIS details the construction and operation of the proposed mine to ensure it is sustainable. The EIS has been assembled to meet the rigorous Terms of Reference established by the Panel for the Gahcho Kué Project.

The Joint Venture partners further announced that the next step in the regulatory process will be for the Panel to review the Project's EIS submission and to confirm that the EIS conforms to the Terms of Reference. When this determination is made, the next steps in the Analytical Phase of the Environmental Impact Review will commence.

On August 2, 2011, the Company announced that the Panel had informed the Gahcho Kué Project Operator, De Beers Canada, that the EIS conforms to the terms of reference set by the Panel, thus clearing the way for the EIR to commence. On March 1, 2012, Mountain Province announced that the permitting of the Gahcho Kué Project was progressing satisfactorily. Following receipt on January 20, 2012 of information requests under the EIR, the Gahcho Kué Project Operator, De Beers Canada, advised that they intend to provide responses by the end of March 2012. Preparations for technical sessions under the EIR are scheduled to commence in April 2012, and public sessions are scheduled to take place in May 2012.

Project Costs to Date

The 2009 Gahcho Kué Joint Venture Agreement contains the following key terms with respect to the Gahcho Kué Project costs:

1. Each Joint Venture partner will contribute their proportionate share to the future project development costs;
2. The Joint Venture partners have agreed that the sunk historic costs to the period ending on December 31, 2008 will be reduced and limited to $120 million;
3. Mountain Province will repay De Beers Canada $59 million (representing 49% of an agreed sum of $120 million) in settlement of the Company's share of the agreed historic sunk costs on the following schedule:

· $200,000 on execution of the 2009 Gahcho Kué Joint Venture Agreement (Mountain Province's contribution to the 2009 Joint Venture expenses to date of execution of the 2009 Gahcho Kué Joint Venture Agreement – paid);

· Up to $5.1 million in respect of De Beers Canada's share of the costs of the feasibility study commissioned in August 2009 (paid $4,366,362 to December 31, 2011, recorded as "sunk cost repayment" in the Company's financial statements);

· $10 million upon the completion of the feasibility study with at least a 15% IRR and approval of the necessary development work for a mine (as defined in the 2009 Gahcho Kué Joint Venture Agreement – paid March 15, 2011);

· $10 million following the issuance of the construction and operating permits;

- $10 million following the commencement of commercial production; and
- The balance of approximately $24.4 million within 18 months following commencement of commercial production.

The following table outlines the Gahcho Kué Project costs (at 100%) to date:

Period of Time	Amount
Agreed historic sunk costs to December 31, 2008	$120,000,000
Expenditures January 1, 2009 to December 31, 2009	1,654,383
Costs for Feasibility Study from August 2009 to December 2009 (of approved budget of $10 million)	2,531,056
Total Costs to December 31, 2009	$124,185,439
Expenditures January 1, 2010 to December 31, 2010	10,754,884
Costs for Feasibility Study from January 2010 to December 2010 (of approved budget of $10 million)	5,593,913
Total Costs to December 31, 2010	$140,534,236
Expenditures January 1, 2011 to December 31, 2011	16,320,970
Costs for Feasibility Study from January 1, 2011 to December 31, 2011	466,526
Total Costs to December 31, 2011	$157,321,732
Approved Budget January 1, 2012 to December 31, 2012	$21,373,927

Other Properties

Kennady North

Mountain Province (outside of the Joint Venture with De Beers Canada) has the following five mining leases with their respective lease numbers – 4340, 4342, 4466, 4467, and 4468 – in the Kennady Lake area. These five mining leases represent about 12,755 acres. The Company also staked in late 2010 eight claims around Gahcho Kué – Kwezi 01 to Kwezi 08. These claims represent approximately 17,619 acres, and together with the five mining leases, comprise 30,374 acres – the Company's Kennady North Project. These mining leases and claims are not part of the 2009 Gahcho Kué Joint Venture Agreement with De Beers Canada and are not considered part of the Gahcho Kué Project.

Historical exploration on the Kennady North Project was done starting in 1992, and continued until about 10 years ago when the Company and De Beers Canada focussed exploration efforts on the Gahcho Kué Project.

In 2011, the Company engaged Fugro Airborne Survey Corp. to do a 50-metre line spacing Falcon airborne gravity gradiometry ("AGG") survey over both the 100%-controlled Kennady North Project, and with the approval of De Beers Canada, over the Gahcho Kué Project. This survey was conducted in October 2011, and flew a total of 3,991 line-kilometres of which 2,793 line-kilometres were over the Kennady North Project and 1,198 line-kilometres were over the Gahcho Kué Project. In December 2011, the Company announced that the analysis of the final results of the Falcon AGG survey identified over 70 geophysical targets of which 29 are considered high priority and closely resemble the known kimberlites in the Kennady Lake area. The Company further announced that once a land-use permit had been secured for the Kennady North Project, ground-truthing of the high priority targets would occur in preparation for drilling in 2012. Aurora Geosciences Ltd. based in Yellowknife, NWT (Canada) was retained to manage the Kennady North Project exploration program.

On February 27, 2012, Mountain Province announced that the final analysis of the Fugro airborne gravity gradiometry (AGG) survey flown over the Kennady North Project in October 2011 resulted in the identification of 106 geophysical targets, and that a 560 line-kilometre total magnetic field (MAG) ground survey was commencing over the geophysical targets identified by the AGG survey. The MAG survey is being conducted at 20 metre line-spacing, and the results will enable the Company to prioritize the geophysical targets for drilling. The Company announced that the MAG survey is being managed by Aurora Geosciences Ltd. It is expected the MAG survey will be completed by the end of March 2012 and will be used to guide a planned drill program.

Kennady North Spin-out

On December 22, 2011, the Company announced that it was giving consideration to the potential spin-out of the Kennady North Project into a newly-listed public company. On January 12, 2012, the Company announced that its Board of Directors had approved a proposal to spin-out the 100%-controlled Kennady North Project into a newly incorporated company, Kennady Diamonds Inc. The Company commented that the proposed spin-out of the Kennady North Project is intended to deliver greater value to Mountain Province's shareholders by unlocking the value of this highly prospective diamond project, and would enable Mountain Province to focus on the Gahcho Kué Project while Kennady Diamonds focuses on the Kennady North Project. The proposed spin-out would be effected through a plan of arrangement and will be subject to regulatory and court approval, as well as shareholder approval at a special meeting scheduled for April 25, 2012. Under the plan of arrangement, the Company would distribute 100% of the shares for Kennady Diamonds Inc. to Mountain Province shareholders on a pro-rata basis, and provide sufficient working capital to Kennady Diamonds Inc. to fund its operations for a reasonable period.

On March 13, 2012, the Company announced further details regarding the proposed spin-out. These details included that working capital of $3 million would be provided to Kennady Diamonds Inc. and that 100% of the Kennady Diamonds Inc. shares would be distributed to the Mountain Province shareholders on the basis of one Kennady Diamonds Inc. share for every five shares of Mountain Province held by shareholders.

Gahcho Kué Project and Kennady North Project Claims and Leases (2011)

Other

As well, the Company has a 50% interest (acquired pursuant to an option/joint venture agreement with Opus Minerals Inc., now known as First Strike Diamonds Inc. on July 13, 1998) in claims held by Opus Minerals Inc. in the northern end of the Baffin Island. The property values for these claims were written off in fiscal 2004, and the Baffin Island property is no longer of interest to the Company. Pursuant to the amalgamation of Mountain Glen and Glenmore, the Company's wholly-owned subsidiary, Mountain Glen, acquired mineral properties in Finland. These mineral properties were transferred to the Company when Mountain Glen wound up its affairs.

The Company had one non-material property in Finland, the Haveri Gold Property. An option was granted on October 10, 2002 to Northern Lion Gold Corp. (formerly Vision Gate Ventures Limited) for the acquisition of a 70% interest in the Haveri Property. On October 4, 2004, the Company agreed to exchange its remaining 30% interest in the Haveri Property for 4,000,000 shares of Northern Lion Gold Corp. The shares of Northern Lion Gold Corp. were sold in 2007.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

A. *Operating results.*

The following discussion of the financial condition and operating results of the Company should be read in conjunction with the consolidated financial statements and related notes to the financial statements which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. Discussion and analysis set forth below covers the results obtained under IFRS in Canada for 2011 compared to 2010.

The Company has changed its year end to December 31, effective December 31, 2009, to align its fiscal yearend with that of De Beers Canada, the operator of the Gahcho Kué Project.

Fiscal Period ended December 31, 2011 compared to Fiscal Year ended December 31, 2010.

The Company's net loss for the year ended December 31, 2011 was $11,538,935 or $0.15 per share, compared to $14,534,727 or $0.21 per share for the year ended December 31, 2010 under IFRS.

Consulting fees for the year ended December 31, 2011 at $1,631,188 (December 31, 2010 - $721,987) includes a value for stock based compensation of $487,085 in 2011 (December 31, 2010 - $nil). As well, it includes consulting costs for a variety of corporate projects such as the Company's conversion to IFRS.

In the year ended December 31, 2011, the Company's share of expenses relating to the Gahcho Kué Project included in exploration and evaluation expenses totalled $8,225,873 (December 31, 2010 – $7,826,126). Also included in exploration and evaluation expenses is $806,712 incurred by the Company for its Kennady North Project (December 31, 2010 - $47,993) which consists of the costs for the airborne gravity survey conducted in October 2011 over the Kennady North Project as well as consulting costs relating to Kennady North.

The increase in the Gahcho Kué Project management fee from $162,613 for the year ended December 31, 2010 to $236,464 reflects increased activity at the Gahcho Kué Project done by the Operator.

Increases in other expense categories such as travel, transfer agent and regulatory fees, salary and benefits, promotion and investor relations, and professional fees reflect increased activities for the Company.

The interest income for the year ended December 31, 2011 at $303,354 reflects increased cash and short term investments over the year compared to the year ended December 31, 2010 (December 31, 2010 - $122,590) after financings done in 2010.

Office and administration for the year ended December 31, 2011 of $458,467 (December 31, 2010 - $200,274) includes foreign exchange loss of approximately $250,000.

Other expenses in the year ended December 31, 2010 included a loss on revaluation of warrants exerciseable in a foreign currency in the amount of $4,767,578. In the year ended December 31, 2011, there was a gain on revaluation of warrants exerciseable in a foreign currency in the amount of $489,481.

B. *Liquidity and capital resources.*

Since inception, the Company’s capital resources have been limited. The Company has had to rely upon the sale of equity securities to fund property acquisitions, exploration, capital investments and administrative expenses, among other things (see Risk Factors, Item 3D(i)).

On May 17, 2010, the Company completed a non-brokered private placement of 5,476,177 common shares at a price of $2.10 per share, to raise gross proceeds of approximately $11.5 million. Proceeds from the private placement are being used to support the feasibility study and permitting for the Gahcho Kué Project, and for general corporate purposes.

On November 18, 2010, the Company completed a private placement of 4.6 million shares at a price of $5.00 per share, to raise gross proceeds of $23 million. The net proceeds of the Offering are being used to advance the Gahcho Kué Project and for general corporate purposes.

The Company reported working capital of $15.1 million at December 31, 2011 ($24.7 million as at December 31, 2010), and cash and cash equivalents and short-term investments of $17.8 million ($33.6 million at December 31, 2010). The short-term investments are guaranteed investment certificates held with a major Canadian financial institution, and the Company considers there to be no counter-party credit risk associated with the financial institution.

The Company had no long-term debt as at December 31, 2011 and December 31, 2010. The Company’s contributions payable to De Beers Canada are contingent on certain events occurring such as a decision to build the mine, receipt of

permits, and production. (See “Overall Performance” section above).

During 2011, 2,658,866 warrants were exercised for proceeds of $7,242,471, and 270,635 stock options were exercised for proceeds of $665,000. There are no warrants outstanding at December 31, 2011. After December 31, 2011, 300,000 options were exercised for proceeds of $516,000.

In order to advance the Gahcho Kué Project and exploration of the Kennady North Project, the Company will be required to raise additional capital through equity and/or debt financings on terms that may be dilutive to its shareholders’ interests in the Company and the value of their common shares. The Company may consider debt financing, joint ventures, production sharing arrangements, disposing of properties or other arrangements to meet its capital requirements in the future. Such arrangements may have a material adverse affect on the Company’s business or results of operations. As well, there is no guarantee that the Company will be able to raise additional capital, or to raise additional capital on terms and conditions which it finds acceptable. The Company is required to make repayments under the 2009 Gahcho Kué Joint Venture Agreement (see Item 4D), which must also be financed. An inability to make the repayments required could result in a dilution of the Company’s marketing rights as described in the 2009 Gahcho Kué Joint Venture Agreement.

As at December 31, 2011, the Company has not achieved profitable operations and continues to be dependent upon its ability to obtain external financing to meet the Company’s liabilities as they become payable. The Company’s ability to continue operations beyond the next twelve months is dependent on the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to fund its operations, and the future production or proceeds from developed properties.

The Company’s mineral assets are in the exploration and evaluation stage and, as a result, the Company has no source of revenues. In the year ended December 31, 2011, the Company incurred losses amounting to $11,538,935, had negative cash flows from operations of $13,099,673, and will be required to obtain additional sources of financing to complete its business plans going into the future. Although the Company had working capital of $15,064,475 at December 31, 2011, including $17,840,729 of cash and short-term investments, the Company has insufficient capital to finance its operations and the Company’s costs of the Gahcho Kué Project over the next 12 months. The Company is currently investigating various sources of additional liquidity to increase the cash balances required for ongoing operations over the foreseeable future. These additional sources include, but are not limited to, share offerings, private placements, credit facilities, and debt, as well as exercises of outstanding options and warrants. However, there is no certainty that the Company will be able to obtain financing from any of those sources. These conditions indicate the existence of a material uncertainty that results in substantial doubt as to the Company’s ability to continue as a going concern.

The consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, and do not reflect adjustments to assets and liabilities that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

The Company expects to continue incurring annual losses until it receives revenue from production on the Gahcho Kué Project, if placed into production. There is no assurance that the property will be developed or placed into production.

C. *Research and development, patents and licenses, etc.*

The Company does not engage in any research and development activities and has no patents or licenses.

D. *Trend information.*

There are no major trends which are anticipated to have a material effect on the Company's financial condition and results of operations in the near future. The reduction of expenses has been achieved in most areas. Management will continue its efforts to reduce other expenses.

E. *Off-balance sheet arrangements.*

The Company has no off balance sheet arrangements.

F. *Tabular disclosure of contractual obligations.*

The Company has no contractual obligations relating to debt or lease obligations as at December 31, 2011 other than an operating lease for its office premises, effective February 1, 2012. The lease runs for five years and expires January 31, 2017.

	2012	2013	2014	2015	Thereafter	Total
Future minimum lease payments	$128,696	$140,396	$140,396	$140,396	$152,096	$701,980

Critical Accounting Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant areas requiring the use of management estimates relate to recoverability of capitalized acquired exploration and evaluation associated with the Gahcho Kué Joint Venture, asset valuations, reserve and resource estimation, decommissioning and restoration provisions, and the assumptions used in determining the fair value of stock options and warrants, as applicable. Actual results could materially differ from these estimates.

Particularly, the Company reviews its interest in the Gahcho Kué Project for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. IFRS requires the Company to make certain judgments, assumptions, and estimates in identifying such events and changes in circumstances, and in assessing their impact on the valuations of the affected assets. Impairments are recognized when the book values exceed management's estimate of the net recoverable amounts associated with the affected assets. The values shown on the balance sheet for the Company's interest in the Gahcho Kué Project represent the Company's assumption that the amounts are recoverable. Owing to the numerous variables associated with the Company's judgments and assumptions, the precision and accuracy of estimates of related impairment charges are subject to significant uncertainties, and may change significantly as additional information becomes known. The Company's assessment is that as at December 31, 2011, there has been no impairment in the carrying value of its Interest in the Gahcho Kué Joint Venture.

The Company has recorded its proportional interest in the asset retirement obligation of the Gahcho Kué Project. The asset retirement obligation calculation, and the accretion recorded are based on estimates of future cash flows, discount rates, and assumptions regarding timing. The estimates may be inaccurate and the actual costs for the asset retirement obligation may change significantly.

The Company expenses all stock-based payments using the fair value method. The Company also values warrants under the fair value method. Under the fair value method and option and warrant pricing model used to determine fair value, estimates are made as to the volatility of the Company’s shares and the expected life of the options and warrants. Such estimates affect the fair value determined by the option and warrant pricing model.

Effect of Inflation

In the Company's view, at no time during any of the last three fiscal years have inflation or changing prices had a material impact on the Company's sales, earnings or losses from operations, or net earnings.

U.S. Generally Accepted Accounting Principles

U.S. GAAP differs in some respects from IFRS as issued by the International Accounting Standards Board. The Company’s consolidated financial statements have been prepared only in accordance with IFRS.

Item 6. Directors, Senior Management and Employees

A. *Directors and senior management.*

The following table lists, as of March 26, 2012, the names of the directors and senior management of the Company. The directors and senior management have served in their respective capacities since their election and/or appointment and will serve until the next Annual General Meeting of Shareholders or until a successor is duly elected, unless the office is vacated in accordance with the Company's Articles or unless there is a prior resignation or termination.

Name	Position with Company	Date of First Appointment
Jonathan Comerford	Chairman and Director(2)(3)	Chairman of the Company since May 11, 2006 and Director since September 21, 2001

Patrick Evans	President, Chief Executive Officer and Director	President and Director of the Company since November 15, 2005
Jennifer Dawson	Chief Financial Officer	Chief Financial Officer since May 11, 2006
D. Harry W. Dobson	Director[1]	Director since November 1, 1997
Elizabeth J. Kirkwood	Director[1]	Director since September 21, 2001
Peeyush Varshney	Director[2]	Director since April 13, 2007
Carl Verley	Director[1][3]	Director of Old MPV since December 2, 1986 and Director of the Company since November 1, 1997
David E. Whittle	Director[2][3]	Director since November 1, 1997

(1) Member of the Company's Corporate Governance Committee.

(2) Member of the Company's Audit Committee.

(3) Member of the Company's Compensation Committee.

The following is a description of the Company's directors and senior management. The information provided is not within the knowledge of the management of the Company and has been provided by the respective directors and senior officers.

Jonathan Christopher James Comerford, B.A. (Econ.), M.B.S. (Finance)

Mr. Jonathan Comerford has been a director of the Company since September 2001 and Chairman since April 2006. Mr. Comerford is resident in Dublin, Ireland. He obtained his Masters in Business from the Michael Smurfit Business School in 1993 and his Bachelor of Economics from University College, Dublin in 1992. Mr. Comerford has been Investment Manager at IIU Limited since August 1995. He serves as a director of Optimal Payment Plc.

Patrick C. Evans, B.A., B.Sc.

Mr. Patrick C. Evans has been President, CEO and a director of Mountain Province Diamonds Inc. since November 2005. He is a resident of Arizona, USA. Mr. Evans is a graduate of the University of Cape Town where he received his Bachelor of Arts degree in 1977 and Bachelor of Science degree in 1978. He was a career diplomat from 1979 to 1998. In 1999 he was appointed a Vice President of Placer Dome Inc. (a major gold mining company) and a non-executive director of SouthernEra Resources Ltd. (a diamond and platinum exploration, development and mining company). In 2001, he was appointed President and CEO of SouthernEra Resources Ltd. and Messina Limited (a platinum mining company). In 2004, he was appointed President, CEO and a director of Southern Platinum Corp. (a platinum mining company), which was acquired by Lonmin *Plc* in June 2005. In September 2005, he was appointed President, CEO and a director of Weda Bay Minerals Inc. (a nickel exploration and development company), which was acquired by Eramet S.A. in May 2006. Mr. Evans was appointed the CEO and a director of Norsemont Mining Inc. (a copper exploration and development company) in June 2007 which was taken over by Hudbay in the March 2011. He also served as a non-executive director of Anvil Mining Limited (a copper mining company) from March 2009 to February 2012 when Anvil Mining was acquired by Minmetals. Mr. Evans is a non-executive director of Pan Global Resources Inc. since April 2011.

Jennifer M. Dawson, B.B.A.

Ms. Jennifer Dawson has been the Company's Chief Financial Officer and Corporate Secretary since May 2006. She is a resident of Ontario, Canada. Ms. Dawson is a graduate of St. Francis Xavier University where she received her Bachelor of Business Administration in 1984. Her work experience includes public accounting experience with Touche Ross & Co. (now Deloitte) from 1984 to 1989, and financial management experience with CCH Canadian Limited (1989 to 2000) and Genesis Media Inc. (from 2000 to 2004). She provided financial consulting services to SouthernEra Resources Ltd. in its corporate reorganization in 2004, and ongoing financial consulting services to both SouthernEra Diamonds Inc. and to Southern Platinum Corp. after the reorganization in 2004 through 2005. Since 2004, she has been a self-employed financial consultant, and in addition to her CFO and Corporate Secretary roles with the Company, she provided financial and administrative services to Arizona Star Resource Corp. as a consultant from 2005 to 2008 (now owned 100% by Barrick Gold Corporation), and to Blacksands Petroleum, Inc. (2007 to 2010).

D. Harry W. Dobson

Mr. Harry Dobson has been a director of the Company since November 1997 and is a resident of Monaco. Mr. Dobson was the founder and chairman of American Pacific Mining Company Inc. and a director of Breakwater Resources Ltd. until 1991. Subsequent to 1991, Mr. Dobson served as Deputy Chairman of the Board and a director of Lytton Minerals Limited. He is a former officer and director of 444965 B.C. Ltd., and served as a director and Chairman of Glenmore Highlands Inc. Since October 2001, he has been a director and the Chair of Kirkland Lake Gold Inc. He is also a director and Chair of Borders and Southern Petroleum plc since 2005. His other directorship is with Rambler Metals and Mining plc.

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Elizabeth J. Kirkwood

Ms. Elizabeth J. Kirkwood has been an entrepreneur and independent business woman since February 1989 with a focus on the creation, financing and management of junior resource companies. She has been a director of the Company since September 2001 and was past Chairman of the Board of the Company from January 2003 until April 2006. She was also Chief Financial Officer of the Company from September 2003 until May 2006, and Corporate Secretary from November 2003 until May 2006. She is resident in Ontario, Canada, and a member of the Prospectors and Developers Association of Canada. Ms. Kirkwood was appointed the President and CEO of Match Capital Resources Corporation in July, 2010. Ms. Kirkwood was the President and CEO of First Nickel Inc. (November 2003 to June 2006). She has been a past director of Everbright Capital Corporation (June 2005 - July 20009), Canadian Shield Resources Inc. (June 2005-June 2007), Intrepid Minerals Corporation (April 1999 – July 2006), Investor Links.com (March 1993-May 2001), Canada's Choice Spring Water (July 1996-August 1999), Stroud Resources Ltd. (August, 2000 - March 2002), and a past director and officer of O.S.E Corp. (formerly Oil Springs Energy Corp. (July, 1993- June 2005), Hucamp Mines Limited (May 2001-May 2002), and First Strike Diamonds Inc. (October 1995 – March 2004). She is a director of Match Capital Resources Corporation.

Peeyush Varshney, LL.B.

A resident of British Columbia, Canada, Mr. Peeyush Varshney has been actively involved in the capital markets since 1996 and has been a principal of Varshney Capital Corp., a private merchant banking, venture capital and corporate advisory firm since 1996. Since September 2005, he has also been the Chief Executive Officer and a director of Canada Zinc Metals Corp., a resource exploration company listed on the TSX Venture Exchange. Mr. Varshney obtained a Bachelor of Commerce degree (Finance) in 1989 and a Bachelor of Laws in 1993, both from the University of British Columbia. He then articled at Farris, Vaughan, Wills & Murphy, a law firm in Vancouver, British Columbia, from 1993 to 1994, and has been a member of the Law Society of British Columbia since September 1994. Mr. Varshney is a director of Afrasia Mineral Fields Inc., Mexigold Corp., Trigen Resources Inc., Minaean International Corp., and Open Gold Corp.

Carl G. Verley, B.Sc., P. Geo.

Mr. Carl Verley is a resident of British Columbia, Canada, and a graduate of the University of British Columbia where he received his Bachelor of Science Degree in May of 1974. He worked for Cordilleran Engineering Ltd. from 1975 to 1982. He has been a self-employed geologist since 1982. From August of 1990 to January 2002, he served on the Board of Directors of Gee-Ten Ventures Inc. and since July 2003 to December 2011, he has been a director of Alphamin Resources Corp. (formerly La Plata Gold Corporation). Currently and since 1986 he has been a director of Mountain Province Diamonds Inc. and since 2007 he has been a director of African Metals Corporation. He is the President of Amerlin Exploration Services Ltd., a private company providing exploration services to the mineral industry, that he formed 1983. He is vice president of exploration for Windstorm Resources Inc. He is a registered

Professional Geoscientist with the British Columbia Association of Professional Engineers and Geoscientists.

David E. Whittle, B.Comm., C.A.

Mr. Whittle is a Chartered Accountant and is a resident of British Columbia, Canada. He has been a director of Mountain Province Diamonds Inc. since November 1997. From 2004 to August 2007, Mr. Whittle was Chief Financial Officer of Hillsborough Resources Limited, a public company in the mining business. Since October 2007, Mr. Whittle's principal occupation has been Chief Financial Officer of Alexco Resource Corp., a public company both in the mining business and in the business of providing consulting services to third parties in respect of environmental remediation and permitting.

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B. *Compensation.*

The Company has two executive officers (collectively, the "Executive Officers"): Patrick Evans, the President and CEO, and Jennifer Dawson, the Chief Financial Officer and Corporate Secretary. For particulars on these executive officers, reference should be made to “Item 6A - Directors and Senior Management”.

The compensation paid to the executive officers and details of management contracts and incentive options granted to the two executive officers of the Company for the Company's most recently completed financial years is as follows:

- Patrick Evans, President and Chief Executive Officer, earned other annual compensation of $430,000 in the most recent fiscal year ending December 31, 2011 including $420,000 pursuant to a consulting agreement (as amended) for his services as President and CEO, as well as a director’s fee of $10,000 for the year ended December 31, 2011. As at December 31, 2011, he had 400,000 stock options. Subsequent to December 31, 2011, he exercised 300,000 stock options at an exercise price of $1.72. As well, he was granted 100,000 stock options on March 8, 2012, which vested immediately, have an exercise price of $4.84 and a term of five years.

Grant date	Number	Vesting	Exercise Price	Term
August 24, 2009	300,000	Immediately	$ 1.72	5 years
January 10, 2011	100,000	Immediately	$ 6.13	5 years

- Jennifer Dawson, Chief Financial Officer and Corporate Secretary, was paid $392,537 pursuant to a consulting agreement for her services as CFO and Corporate Secretary for the year ended December 31, 2011. Subsequent to December 31, 2011, she was granted 50,000 stock options on March 8, 2012, which vested immediately, have an exercise price of $4.84 and a term of five years. As at December 31, 2011, she has 140,000 stock options as follows:

Grant date	Number	Vesting	Exercise Price	Term
November 24, 2008	90,000	Immediately	$ 1.26	5 years
January 10, 2011	50,000	Immediately	$ 6.13	5 years

Compensation for the directors was approved effective April 1, 2005 at the following levels: the Chairman of the Board receives $10,000 per annum, the Chairman of the Audit Committee receives $7,500 per annum, and all other Directors receive $5,000 per annum. All are paid semi-monthly, in advance. Effective January 1, 2011, compensation for the directors has been approved at the following levels: Chairman of the Board to receive $20,000 per annum, the Chairman of the Audit Committee to receive $15,000 per annum, and all other Directors are to receive $10,000 per annum. These amounts are to continue to be paid semi-annually, in advance.

Effective January 1, 2012, compensation for the directors has been approved at the following levels: Chairman of the Board to receive $30,000, the Chairman of the Audit Committee to receive $25,000, the director serving as the Company's Qualified Person $25,000, and all other Directors are to received $20,000 per annum. These amounts continue to be paid semi-annually, in advance.

During each of the years ended December 31, 2011, December 31, 2010, and December 31, 2009 (nine months), director fees were earned by the following directors:

Director/Position	December 31, 2011	**December 31, 2010(1)**	**December 31, 2009(2)**
Jonathan Comerford *Chairman of the Board*	$ 20,000	$ 7,500	$ 10,000
David Whittle *Chairman of the Audit Committee*	$ 15,000	$ 5,625	$ 7,500
Harry Dobson *Director*	$ 10,000	$ 3,750	$ 5,000
Patrick Evans *Director*	$ 10,000	$ 3,750	$ 5,000
Elizabeth Kirkwood *Director*	$ 10,000	$ 3,750	$ 5,000
Carl Verley *Director*	$ 10,000	$ 3,750	$ 5,000
Peeyush Varshney *Director*	$ 10,000	$ 3,750	$ 3,750

(1) The Directors' Fees were prorated for the first semi-annual payment in 2010 to adjust for the payment, in advance, of the January 1, 2010-March 31, 2010 fees paid in October 2009 before the Company's change in year end.

(2) The Directors Fees were paid, in advance, in October 2009 for the period of October 1, 2009 to March 31, 2010. Subsequent to this payment, the Company changed its yearend to December 31, 2009, and adjusted the subsequent directors' fees for the required proration.

The Company has no Long-Term Incentive Plan ("LTIP") in place and therefore there were no awards made under any long-term incentive plan to the Executive Officers during the Company's most recently completed financial year. A "Long-Term Incentive Plan" is a plan providing compensation intended to motivate performance over a period of greater than one financial year, other than a plan for options, SARs (stock appreciation rights) or compensation through shares or units that are subject to restrictions on resale.

The following table sets out incentive stock options exercised by the Executive Officers during the most recently completed financial year, as well as the financial year end value of stock options held by the Executive Officers.

During this period, no outstanding SARs were held by the Executive Officers.

Name	Securities, Acquired on Exercise (#)	**Aggregate Value Realized ($)[1]**	Unexercised Options at Financial Year-End Exercisable / Unexercisable (#)	**Value of Unexercised In-the-Money Options at Financial Year-End Exercisable / Unexercisable ($)[2]**
Patrick Evans	Nil	Nil	400,000/0	$ 654,000/0
Jennifer Dawson	Nil	Nil	140,000/0	$ 237,600/0

(1) Based on the difference between the option exercise price and the closing market price of the Company's shares on the date of exercise.

(2) In-the-Money Options are those where the market value of the underlying securities as at the most recent financial year end exceeds the option exercise price. The closing market price of the Company's shares as at December 31, 2011, (ie. financial year end) was $3.90.

There were no options or freestanding SARs held by the Executive Officers that were re-priced downward during the most recently completed financial year of the Company.

The Company does not have a defined benefit/actuarial plan, under which benefits are determined primarily by final compensation and years of service of the Company's officers and key employees.

In addition to the foregoing, some of the executive officers of the Company are also entitled to medical and dental benefits, reimbursement of all reasonable business expenses and, from time to time, the grant of stock options.

No plan exists, and no amount has been set aside or accrued by the Company or any of its subsidiaries, to provide pension, retirement or similar benefits for directors and officers of the Company, or any of its subsidiaries.

C. *Board practices.*

The directors of the Company are elected annually and hold office until the next annual general meeting of the shareholders of the Company or until their successors in office are duly elected or appointed. The Company does not have an executive committee. All directors are elected for a one-year term. All officers serve at the pleasure of the Board. None of the directors, with the exception of Patrick Evans, who serves as the Company's President and CEO, have any service agreements with the Company. Mr. Evans' agreement contains a termination clause that would provide him with 18 months of compensation if there is a change of control of the Company.

The next Annual General Meeting of the shareholders of the Company has been scheduled for June 14, 2012.

The Board has adopted a Charter under which it and the Board's committees operate. The Company's board of directors has three committees- the Audit Committee, the Nominating/Corporate Governance Committee and the Compensation Committee.

Audit Committee

The members of the Audit Committee do not have any fixed term for holding their positions and are appointed and replaced from time to time by resolution of the Board of Directors. It is composed of at least three directors, and the Board has determined that David Whittle, C.A. of the Audit Committee meets the requirement of an "audit committee financial expert" as defined in Item 16A of Form 20-F. Each member of the Audit Committee has the financial ability to read and understand a balance sheet, an income statement and a cash flow statement. All three members of the Audit Committee are independent.

The current members of the Audit Committee are Jonathan Comerford, Peeyush Varshney and David Whittle. Except for the chairman, David Whittle, the Audit Committee members receive no separate remuneration for acting as such and their appointments are not for any fixed term.

The Audit Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities. Its primary duties and responsibilities are to:

a. identify and monitor the management of the principal risks that could impact the financial reporting of the Company;

b. monitor the integrity of the Company's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;

c. make recommendations regarding the selection of the Company's external auditors (by shareholders) and monitor their independence and performance;

d. provide an avenue of communication among the external auditors, management and the Board;

e. handle complaints regarding the Company's accounting practices; and

f. administer and monitor compliance with the Company's Ethics and Conflict of Interest Policy.

Corporate Governance Committee

The members of the Corporate Governance Committee are Elizabeth Kirkwood (Chair), Carl Verley and Harry Dobson, a majority of whom are unrelated.

The Corporate Governance Committee is responsible for assessing directors on an ongoing basis and for developing the Company's approach to governance issues and for the Company's response to the Sarbanes-Oxley Act of 2002, as implemented by the U.S. Securities and Exchange Commission, and the Toronto Stock Exchange's governance guidelines.

Compensation Committee

The Compensation Committee is composed of Carl Verley (Chair), David Whittle, and Jonathan Comerford, all of whom are independent. The Committee, in consultation with the Chairman and CEO of the Company, makes recommendations to the Board on the Company's framework of executive remuneration and its cost and on specific remuneration packages for each of the executives. The remuneration of non-executives, including members of the Compensation Committee, is determined by the Board.

D. *Employees.*

As at the end of the fiscal years ended December 31, 2011 and 2010, and the fiscal nine months ended December 31, 2009, the Company had no full-time employees. Patrick Evans and Jennifer Dawson have consulting agreements with the Company. The Toronto administrative and executive office uses outsourced administrative assistance on an as-needed, part-time basis. De Beers Canada employs personnel who conduct the development, permitting and other activities for the Gahcho Kué Project.

E. *Share ownership.*

The following table sets forth, as of March 26, 2012, the number of the MPV Shares beneficially owned by (a) the directors and members of senior management of the Company, individually, and as a group, and (b) the percentage ownership of the outstanding common shares represented by such shares. The security holders listed below are deemed to be the beneficial owners of common shares underlying options and warrants which are exercisable within 60 days from the above date.

Name of Beneficial Owner [11]	Amount and Nature	**Percentage**[9][10] **of Class**	
D. Harry Dobson[1]	1,282,510	1.6	%
Patrick C. Evans[2]	1,420,391	1.8	%
Carl G. Verley[3]	243,000	*	%
Jonathan Comerford[4]	197,275	*	%
Peeyush Varshney[5]	170,122	*	%
Elizabeth Kirkwood[6]	89,900	*	%
David E. Whittle[7]	130,600	*	%
Jennifer Dawson[8]	256,800	*	%
Officer and Directors as a Group[9]	3,790,598	4.7	%

* less than 1%

(1) Includes 1,208,510 MPV Shares and 74,000 options which are exercisable at a price of $1.26 per MPV Share, and which expire on November 23, 2013.

(2) Includes 1,220,391 MPV Shares and 200,000 options. 100,000 options are exerciseable at a price of $6.13 per MPV Share, and expire on January 9, 2016. 100,000 options are exerciseable at a price of $4,84 per MPV share, and expire on March 7, 2017.

(3) Includes 243,000 MPV Shares and nil options.

(4) Includes 67,275 MPV Shares and 130,000 options. The options are exercisable at a price of $1.26 per MPV Share and expire on November 23, 2013.

(5) Includes 80,122 MPV Shares and 90,000 options. The options are exercisable at a price of $1.26 per MPV Share, and expire on November 23, 2013.

(6) Includes 19,900 MPV Shares and 70,000 options. The options are exercisable at a price of $1.26 per MPV Share and expire on November 23, 2013.

(7) Includes 70,600 MPV Shares, and 60,000 options. The options are exercisable at a price of $1.26 per MPV Share and expire on November 23, 2013.

(8) Includes 66,800 MPV Shares, and 190,000 options. 90,000 options are exercisable at $1.26 per MPV Share, expiring November 23, 2013. 50,000 options are exercisable at $6.13 per MPV Share and expire January 9, 2016. 50,000 options are exerciseable at $4.84 per MPV Share and expire March 7, 2017.

(9) Includes 864,000 options outstanding, 814,000 of which are held by the directors and officers (exercisable). The calculation does not include stock options or warrants that are not exercisable presently or within 60 days (of which there are none)

(10) Total issued and outstanding capital as at the close of March 26, 2010 was 80,645,558 shares.

(11) The Company has no actual knowledge of the holdings of each individual. The above information was provided by the respective individuals to the Company.

The Company has a stock option plan pursuant to which stock options may be granted to its directors, officers and employees. Stock options are awarded by resolution of the board of directors.

Item 7. Major Shareholders and Related Party Transactions

A. *Major shareholders.*

A major shareholder is a shareholder beneficially owning more than 5% of the issued shares of the Company**.**

As at March 26, 2012, the Company's issued and outstanding capital was 80,645,558 MPV Shares.

The Company is a publicly-owned corporation the majority of the MPV Shares of which are owned by persons resident outside the United States. To the best of the Company's knowledge, the Company is not directly owned or controlled by another corporation or any foreign government. As at March 26, 2012, the Company believes that approximately 16,730,637 of the MPV Shares were held by 76 shareholders with addresses in the United States. A number of these shares are held in "street" name and may, therefore, be held by several beneficial owners.

The following table shows, to the best knowledge of the Company, the number (as at March 26, 2011) and percentage of MPV Shares, warrants and options held by the Company's major shareholders:

Name of Shareholder[(1)]	**No. of MPV Shares Held** [(2)]	Percentage of issued and outstanding share capital of 80,645,558 shares (as at March 26, 2012)	
Bottin (International) Investments Ltd. (controlled by Dermot Desmond)	15,603,429	19.35	%
Desmond P. Sharkey Dublin, Ireland	6,356,000	7.88	%
De Beers Canada Inc.	3,045,543	3.78	%

(1) The Company has no actual knowledge of the above shareholdings. The above information was provided to the Company by the named shareholders.

(2) There are no options or warrants held by these shareholders.

Major shareholders of the Company do not have any special voting rights.

B. *Related party transactions.*

The Company is not directly or indirectly controlled by any enterprise and does not control, directly or indirectly, any other enterprises other than its subsidiaries listed under “Item 4A. Bottin (International) Investments Ltd.”, which is controlled by Dermot Desmond, has significant influence over the Company as its largest single shareholder: see “Item 7A - Major shareholders”, above.

Key management personnel of the Company are Patrick Evans, who is President and CEO, and Jennifer Dawson, who is Chief Financial Officer and Corporate Secretary. Patrick Evans is also a director of the Company. See “Item 6B – Compensation”.

Both Mr. Evans and Ms. Dawson have consulting agreements with the Company.

There are no debts owing directly or indirectly to the Company or its subsidiaries by any director or officer of the Company or vice versa.

There is no indebtedness between the directors and the Company.

C. *Interests of experts and counsel.*

Not Applicable

Item 8. Financial Information

A. *Consolidated Statements and Other Financial Information*

Listed in Item 19 hereto are audited consolidated financial statements as at December 31, 2011 and December 31, 2010 and for the years ended December 31, 2011 and 2010, accompanied by the report of our independent registered accounting firm, including:

- Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting.
- Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements.
- Consolidated Balance Sheets as of December 31, 2011, December 31, 2010, and January 1, 2010 (the transition date to IFRS).
- Consolidated Statements of Equity for the years ended December 31, 2011 and 2010.
- Consolidated Statements of Comprehensive Loss for the years ended December 31, 2011 and 2010.
- Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010.
- Notes to the Consolidated Financial Statements.

There are no legal proceedings currently pending.

The Company has not paid dividends in the past and does not expect to pay dividends in the near future.

B. *Significant Changes.*

There have been no significant changes to the Company since the end of last fiscal year, other than the exercise of options as disclosed in the financial statements included in this Form 20-F.

Item 9. The Offer and Listing.

A. ***Offer and listing details.***

The MPV Shares were listed and posted for trading on TSX on January 22, 1999. The MPV Shares were delisted from the VSE on January 31, 2000, and from the Nasdaq Smallcap Market on September 29, 2000. The MPV Shares traded on the OTC-Bulletin Board ("OTCBB") under the symbol "MPVI" until June 1, 2005. Commencing on April 4, 2005, the MPV Shares were listed for trading on the NYSE AMEX under the symbol "MDM".

The following tables set forth the reported high and low prices of the MPV Shares on the TSX, and for the NYSE Amex, for (a) the five most recent fiscal years; (b) each quarterly period for the past two fiscal years, and (c) for the most recent six months.

High and Low Prices for the Five Most Recent Fiscal Years

Fiscal Year Ended	TSX		**NYSE AMEX / OTCBB[(1)]**	
	High (CDN$)	Low (CDN$)	High (US$)	Low (US$)
December 31, 2011	$ 6.50	$ 3.52	$ 6.74	$ 3.48
December 31, 2010	$ 6.65	$ 2.02	$ 6.64	$ 1.96
December 31, 2009	$ 3.07	$ 0.86	$ 2.90	$ 0.69
March 31, 2009	$ 5.05	$ 0.75	$ 4.95	$ 0.58
March 31, 2008	$ 5.93	$ 3.79	$ 5.49	$ 3.54

The MPV Shares were listed on the Nasdaq Smallcap Market on May 1, 1996 and delisted from the Nasdaq Smallcap Market on September 29, 2000, at which time they commenced trading on the OTCBB and continued through April 1, 2005. On April 4, 2005, the MPV Shares began trading on the AMEX. AMEX was taken over by NYSE Euronext which then rebranded to NYSE Amex.

High and Low Prices for Each Quarterly Period for the Past Two Fiscal Years

	TSX		NYSE Amex / OTCBB	
Period Ended:	High (CDN$)	Low (CDN$)	High (US$)	Low (US$)
December 31, 2011	$ 5.35	$ 3.52	$ 5.25	$ 3.48
September 30, 2011	$ 5.45	$ 4.10	$ 5.79	$ 4.04
June 30, 2011	$ 6.25	$ 5.00	$ 6.54	$ 5.15
March 31, 2011	$ 6.50	$ 4.90	$ 6.74	$ 5.00
December 31, 2010	$ 6.65	$ 4.17	$ 6.64	$ 4.06
September 30, 2010	$ 4.71	$ 2.56	$ 4.60	$ 2.40
June 30, 2010	$ 2.87	$ 2.07	$ 2.88	$ 2.02
March 31, 2010	$ 2.67	$ 2.02	$ 2.59	$ 1.96

High and Low Prices for the Most Recent Six Months

	TSX (CDN$)	**NYSE AMEX[(1)]**

Month Ended	High	Low	High	Low
February 2012	$5.20	$4.54	$5.26	$4.26
January 2012	$4.88	$3.98	$4.81	$3.85
December 2011	$4.49	$4.01	$4.40	$3.62
November 2011	$5.25	$4.31	$5.25	$3.84
October 2011	$4.21	$3.54	$4.15	$3.48
September 2011	$5.25	$4.24	$5.22	$4.04

(1) On April 4, 2005, the MPV Shares began trading on the American Stock Exchange. AMEX was taken over by NYSE, and rebranded as NYSE Amex. On December 31, 2011, the closing price of the MPV Shares on the TSX was $3.90 and on March 23, 2012 was $4.90. The closing price of MPV Shares on NYSE Amex on December 31, 2011 was US$3.85 per share. The closing price on March 23, 2012 on the NYSE Amex was US$4.91 per MPV Share.

B. Plan of distribution.

Not Applicable.

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C. Markets.

The MPV Shares are listed on the TSX under the symbol "MPV" and were also quoted on the over-the-counter (OTC) Bulletin Board pursuant to Rule 6530(a) of the NASD's OTC Bulletin Board Rules under the symbol "MPVI.OB" until April 1, 2005. Commencing April 4, 2005, the Company's shares commenced trading on the AMEX (now NYSE Amex) under the symbol "MDM". The Common Shares are not registered to trade in the United States in the form of American Depository Receipts or similar certificates.

D. Selling shareholders.

Not Applicable.

E. Dilution.

Not Applicable.

F. Expenses of the issue.

Not Applicable.

Item 10. Additional Information.

A. *Share capital.*

Not applicable.

B. *Memorandum and articles of association.*

Incorporation

The Company was amalgamated in British Columbia under incorporation number 553442 on November 1, 1997 under the name of Mountain Province Mining Inc. The Company changed its name to Mountain Province Diamonds Inc. on October 16, 2000.

The Company is also registered as an extra-territorial corporation in the Northwest Territories (Registration no. E 6486, on February 25, 1998, amended October 16, 2000 for the name change).

The Company does not have any stated "objects" or "purposes" as such are not required by the corporate laws of the Province of British Columbia. Rather, the Company is, by such corporate laws, entitled to carry on any activities whatsoever, which are not specifically precluded by other statutory provisions of the Province of British Columbia.

The Company was amalgamated under the British Columbia *Company Act*, which has now been replaced by the *Business Corporations Act (British Columbia)* (the "BCA"). The BCA came into effect on March 29, 2004. The Company has completed its transition from the Company Act to the BCA and adopted new Articles which reflect the provisions of the BCA. The Company's Memorandum of Articles has been replaced by a Notice of Articles. Pursuant to the Shareholders special resolution on September 20, 2005 approving the continuance of the Company into Ontario, the Company continued under the laws of the Province of Ontario pursuant to Articles of Continuance dated May 8, 2006.

Powers, functions and qualifications of Directors

The powers and functions of directors are set forth in the Ontario Securities Act and in the Bylaws of the Company.

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With respect to the voting powers of directors, the Ontario Securities Act provides that a director (or senior officer) has a disclosable interest in a contract or transaction if the contract or transaction is material to the Company and the director has a material interest in the contract.

The Bylaws provide that a director or senior officer who has, directly or indirectly, a material interest in an existing or proposed material contract or transaction of the Company or who holds any office or possesses any property whereby, directly or indirectly, a duty or interest might be created to conflict with his duty or interest as a director or senior officer, has to disclose the nature and extent of this interest or conflict with his duty and interest as a director or senior officer, in accordance with the provisions of the Ontario Securities Act. A director is also prohibited from voting in respect of any such proposed material contract or transaction and if he does so, his vote shall not be counted, but he shall be counted in the quorum at the meeting at which such vote is taken. Notwithstanding this, if all of the directors have a material interest in a proposed material contract or transaction, any or all of those directors may vote on a resolution to approve the contract or transaction. However, in this case the directors must have the contract or transaction approved by special resolution of the shareholders to avoid accountability for any profits.

The Bylaws further provide that, subject to the provisions of the Ontario Securities Act, no disclosure is required of a director or senior officer, and a director need not refrain from voting in respect of the following types of contracts and transactions:

a) A contract or transaction where both the Company and the other party to the contract or transaction are wholly owned subsidiaries of the same corporation;

b) A contract or transaction where the Company is a wholly owned subsidiary of the other party to the contract or transaction;

c) A contract or transaction where the other party to the contract or transaction is a wholly owned subsidiary of the Company;

d) A contract or transaction where the director or senior officer is the sole shareholder of the Company or of a corporation of which the Company is a wholly owned subsidiary;

e) An arrangement by way of security granted by the Company for money loaned to, or obligations undertaken by, the director or senior officer, or a person in whom the director or senior officer has a material interest, for the benefit of the Company or an affiliate of the Company;

f) A loan to the Company, which a director or senior officer or a specified corporation or a specified firm in which he has a material interest has guaranteed or joined in guaranteeing the repayment of the loan or any part of the loan;

g) Any contract or transaction made or to be made with, or for the benefit of a corporation that is affiliated with the Company and the director or senior officer is also a director or senior officer of that corporation or an affiliate of that corporation;

h) Any contract by a director to subscribe for or underwrite shares or debentures to be issued by the Company or a subsidiary of the Company;

i) Determining the remuneration of the director or senior officer in that person's capacity as director, officer, employee or agent of the Company or an affiliate of the Company;

j) Purchasing and maintaining insurance to cover a director or senior officer against liability incurred by them as a director or senior officer; or

k) The indemnification of any director or senior officer by the Company.

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The Ontario Securities Act provides that a contract or transaction with a company is not invalid merely because a director or senior officer of the company has an interest, direct or indirect, in the contract or transaction, a director or senior officer of the company has not disclosed an interest he or she had in the contract or transaction, or because the directors or shareholders of the company have not approved the contract or transaction in which a director or senior officer of the company has an interest.

The Ontario Securities Act also provides that a director or senior officer with a "disclosable interest" in a contract or transaction with the Company is liable to account for any profit made from the contract or transaction unless disclosure of the director's interest in such contract or transaction had been made and the director abstained from voting on the approval of the transaction.

Subject to the provisions of the Ontario Securities Act, the directors may vote on compensation for themselves or any members of their body. A contract relating primarily to a fiduciary's remuneration as a director, officer, employee or agent of the Company or its affiliates is a permitted conflict of interest under the Company's Corporate Governance Policy.

There are no limitations on the exercise by the board of directors of the Company's borrowing powers.

There are no provisions for the retirement or non-retirement of directors under an age limit.

There is no requirement for any director to hold any shares in the Company.

Rights and Restrictions Attached to Shares

As all of the authorized and issued MPV Shares are of one class, there are no special rights or restrictions of any nature or kind attached to any of the shares. All authorized and issued shares rank equally in respect of the declaration and receipt of dividends, and the rights to share in any profits or surplus on liquidation, dissolution or winding up of the Company. Each MPV Share has attached to it one vote.

Alteration of Share Rights

To alter the rights of holders of issued shares of the Company, such alteration must be approved by a vote of not less than two-thirds of the shareholders voting in person or by proxy at a meeting of the shareholders of the Company.

Annual General Meetings

Annual general meetings are called and scheduled upon decision by the board of directors. The directors may also convene a general meeting of shareholders at any time. There are no provisions in the Company's Bylaws for the requisitioning of special meetings by shareholders. However, the Ontario Securities Act provides that the holders of not less than 5% of the issued shares of the Company may requisition the directors to call a general meeting of the shareholders for the purposes stated in the requisition. All meetings of the shareholders may be attended by registered shareholders or persons who hold powers of attorney or proxies given to them by registered shareholders.

Foreign Ownership Limitations

There are no limitations prohibiting shares being held by non-residents, foreigners or any other group.

Change of Control

There are no provisions in the Company's Bylaws that would have the effect of delaying, deferring or preventing a change in the control of the Company, or that would operate with respect to any proposed merger, acquisition or corporate re-structuring of the Company.

At the November 18, 2010 Annual and Special Meeting of the shareholders, a Shareholder Rights Plan dated September 9, 2010 (the “Shareholder Rights Plan”) was approved, ratified, confirmed and adopted by the shareholders of the Company in accordance with and subject to its terms and conditions. The objectives of the Shareholder Rights Plan are to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take-over bid for the Company.

The Shareholder Rights Plan is designed to discourage discriminatory or unfair take-over bids for the Company and gives the Board of Directors time, if appropriate, to pursue alternatives to maximize shareholder value in the event of an unsolicited (or "hostile") take-over bid for the Company. The Shareholder Rights Plan will encourage a person proposing to make, or who has made, a take-over bid for the Company (an "Offeror") to proceed by way of a Permitted Bid or to approach the Board with a view to negotiation, by creating the potential for substantial dilution of the Offeror's position. The Permitted Bid provisions of the Shareholder Rights Plan are designed to ensure that, in any take-over bid, all shareholders are treated equally, receive the maximum value for their investment and are given adequate time to properly assess the take-over bid on a fully informed basis.

The Shareholder Rights Plan may, however, increase the price to be paid by a potential Offeror to obtain control of the Company and may discourage certain transactions, including a take-over bid for less than all the common shares of the Company. Accordingly, the Shareholder Rights Plan may deter some take-over bids.

In addition, the Shareholder Rights Plan Agreement provides that the continued existence of the Shareholder Rights Plan must be ratified by a majority of the shareholders of the Company at a meeting of the shareholders at or prior to the annual meeting of the shareholders in the year 2013.

Share Ownership Reporting Obligations

There are no provisions in the Company's Bylaws requiring share ownership to be disclosed. The securities laws of the Province of Ontario and other provinces in Canada having jurisdiction over the Company require disclosure of shareholdings by:

(a) insiders who are directors or senior officers of the Company; and

(b) a person who has direct or indirect beneficial ownership of, control or direction over, or a combination of direct or indirect beneficial ownership of and of control or direction over securities of the Company carrying more than 10% of the voting rights attached to all the Company's outstanding voting securities.

The threshold of share ownership percentage requiring disclosure of ownership is higher in the home jurisdiction of Ontario than in the United States where United States law prescribes a 5% threshold for ownership disclosure.

C. *Material contracts.*

The Company did not enter into any material contracts in the last two fiscal periods, up to the date of this Form 20-F other than a plan of arrangement agreement (the “Arrangement Agreement), which was executed on March 12, 2012. The Arrangement Agreement is between the Company and its subsidiary company, Kennady Diamonds Inc., and is the agreement for the spin-out of the Company’s Kennady North Project to Kennady Diamonds Inc. It includes various terms and conditions for the parties, and will be included in an information circular to be mailed to shareholders of the Company for a special shareholder meeting to be held April 25, 2012. The Arrangement Agreement can be terminated by the Company at its sole discretion. The plan of arrangement is subject to court, regulatory and shareholder approval.

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D. Exchange controls.

Exchange Controls and Investment Canada Act

Canada has no system of exchange controls. There are no exchange restrictions on borrowing from foreign countries nor on the remittance of dividends, interest, royalties and similar payments, management fees, loan repayments, settlement of trade debts, or the repatriation of capital. Any such remittances to United States residents, however, may be subject to a withholding tax pursuant to the Canadian Income Tax Act as modified by the reciprocal tax treaty between Canada and the United States. See "Item 10E, Taxation".

Subject to certain exemptions, every "acquisition of control"[1] by a "non-Canadian"[2] of a "Canadian business",[3] even where such business is already controlled by a non-Canadian, requires either notification (essentially a post-closing administrative formality) or detailed review under the *Investment Canada Act* (the “ICA”). Whether a transaction is subject to notification or review depends upon whether certain asset thresholds are satisfied, which thresholds generally depend on (1) the transaction structure (direct or indirect acquisition),[4] (2) whether the purchaser (referred to as the "investor" under the ICA) and/or current owner of the Canadian business is a "WTO investor"[5], (3) whether the Canadian business is a "cultural business"[6], and (4) whether the value of the Canadian assets and assets of the Canadian entities being acquired exceeds 50% of the value of all assets being acquired. The table below provides a summary of the relevant asset thresholds.

Transaction Structure	Status of Investor/ Vendor	Cultural Business	Threshold for Review
Direct	WTO Investor *or* Vendor	No	≥C$330 million7
		Yes	≥C$5 million
	Non-WTO Investor *and*	No	(book value of assets)
	Non-WTO Vendor	Yes	
Indirect	WTO Investor *or* Vendor	No	Exempt from review
		Yes	≥C$50 million*
	Non-WTO Investor *and*	No	(book value of assets)
	Non-WTO Vendor	Yes	

* Note that a C$5 million threshold (rather than C$50 million) applies to indirect acquisitions where the value of the assets of the entity carrying on the Canadian business and of all other entities in Canada being acquired exceeds 50% of the value of all the assets acquired.

[1] What constitutes an "acquisition of control" is set out in the ICA and includes the acquisition of all or substantially all of the assets used in carrying on the Canadian business, or the acquisition of a majority of the voting interests of an entity, whether the entity is of corporate or some other form (*e.g.*, a partnership). The acquisition of less than one-third of the voting shares of a corporation is deemed not to be an acquisition of control of that corporation, while the acquisition of less than a majority but one-third or more of such shares is presumed to be an acquisition of control unless it can be established that the purchaser will not control the corporation in fact through the ownership of voting shares. The acquisition of less than a majority of the voting interests of a non-corporation is deemed not to be an acquisition of control.

[2] A "non-Canadian" is a purchaser the ultimate control of which resides outside of Canada.

[3] A "Canadian business" is defined as a business carried on in Canada that has (a) a place of business in Canada, (b) an individual or individuals in Canada who are employed or self-employed in connection with the business, and (c) assets in Canada used in carrying on the business.

[4] A direct acquisition is the acquisition of assets or voting interests of an entity in Canada that carries on the Canadian business, while an indirect acquisition is the acquisition of the voting shares of a non-Canadian corporation that controls, directly or indirectly, an entity in Canada carrying on the Canadian business.

[5] A "WTO investor" is a purchaser that is controlled ultimately by nationals or residents of a World Trade Organization (“WTO”) member country.

[6] A "cultural business" is one that (i) publishes, distributes or sells books, magazines, periodicals or newspapers, (ii) produces, distributes, sells or exhibits film or video recordings or audio or video music recordings, (iii) produces, distributes or sells music in print or machine readable form, or (iv) is a radio, television, cable television or satellite broadcast undertaking.

[7] Note that the current C$330 million threshold is based on the book value of assets of the Canadian business for the fiscal year immediately preceding implementation of the transaction. On a day that is to be fixed by order of the Governor in Council (the federal Cabinet), the threshold for direct acquisitions by WTO investors will change to one based on the “enterprise value” of the Canadian business. The enterprise value threshold will be established at C$600 million for investments made in the first two-year period; and will increase to C$800 million in the following two years and C$1 billion thereafter , subject to indexation to Canada’s GDP. The ICA does not define "enterprise value"; its manner of calculation will be set out in as yet to be promulgated regulations.

Where the ICA applies and a transaction is not reviewable, a notification (containing certain prescribed information about the purchaser, the transaction and the Canadian business) is required to be filed by the investor with the Investment Review Division of Industry Canada any time prior to closing the transaction or within thirty (30) days thereafter. However, in the case of an investment in a Canadian business that has activities related to Canada's cultural heritage or national identity (as prescribed), the Governor in Council has the option of ordering a review, if notice of same is provided to the investor within 21 days of the filing of the completed notification. (Note that notification under the ICA is also required with respect to the establishment of a new Canadian business.)

Where a transaction is reviewable and is a direct acquisition, an application for review must be filed by the investor prior to closing and the parties are prohibited from closing until the Minister of Industry and/or, in the case of acquisitions of "cultural businesses", the Minister of Canadian Heritage, confirms to the purchaser that he/she is satisfied or is deemed to be satisfied that the investment is likely to be of "net benefit to Canada", based on certain prescribed factors set out in the ICA (set out below) and in view of any legally binding undertakings the purchaser is willing to make. Where a transaction is reviewable and is an indirect acquisition, an application for review must be filed by the investor within 30 days after closing.

Once an application for review has been filed, whether pre-or post-closing, and has been certified to be complete, the responsible Minister has a 45-day period within which to make a "net benefit" determination, which period may be unilaterally extended once by the Minister for an additional 30 days, and thereafter extended with the consent of the investor. (Where notices related to a national security review are given to an investor (see below), the length of the initial 45-day review period and any subsequent extension periods are deemed to expire five days after the expiry of certain time periods or the issuance of certain notices related to the national security review.)

The Minister will determine whether the investment is likely to be of net benefit to Canada, taking into account the information provided and having regard to certain assessment factors. These factors include: (i) the effect of the investment on the level and nature of economic activity in Canada, including the effect on employment, on resource processing, and on the utilization of parts, components and services produced in Canada; (ii) the effect of the investment on exports from Canada; (iii) the degree and significance of participation by Canadians in the Canadian business and in any industry in Canada of which it forms a part; (iv) the effect of the investment on productivity, industrial efficiency, technological development, product innovation and product variety in Canada; (v) the effect of the investment on competition within any industry or industries in Canada; (vi) the compatibility of the investment with national industrial, economic and cultural policies taking into consideration industrial, economic and cultural objectives enunciated by the government or legislature of any province likely to be significantly affected by the investment; and (vii) the contribution of the investment to Canada's ability to compete in world markets.

Where the Minister has advised the investor that he is not satisfied that the investment is likely to be of net benefit to Canada, the investor has the right to make representations and submit undertakings within 30 days of the date of the notice (or any further period that is agreed upon between the investor and the Minister). Within a reasonable time after the expiration of this 30 day period (or the agreed extension), the Minister must notify the acquiror (i) that he is now satisfied that the investment is likely to be of net benefit to Canada or (ii) that he is not satisfied that the investment is

likely to be of net benefit to Canada. In the latter case, the investor may not proceed with the investment or, if the investment has already been consummated, must divest itself of control of the Canadian business.

Effective February 6, 2009, every investment by a non-Canadian to (i) establish a new Canadian business, (ii) acquire control of a Canadian business, or (iii) acquire in whole or in part (*e.g.*, a minority interest) or establish an entity carrying on all or any part of its operations in Canada (if the entity has a place of operations in Canada, employees or assets in Canada used in connection with its operations) may be subjected to a national security review under the ICA, regardless of the value of the investment. Investors that receive notice of a potential or actual national security review are prohibited from implementing a proposed investment pending the outcome of the review. Where the Minister of Industry, after consultation with the Minister of Public Safety and Emergency Preparedness, is satisfied that the investment would be "injurious to national security" (an undefined phrase), the Governor in Council may "take any measures it considers advisable" to protect national security, including: (i) prohibiting implementation of a proposed investment; (ii) authorizing the investment on terms and conditions or subject to written undertakings from the investor; and (iii) in the case of completed investments, requiring the investor to divest control of the Canadian business or its interest in the Canadian business.

Unless a transaction is otherwise subject to notification or to review under the ICA, an investor is not required to notify Industry Canada of transactions that may raise potential national security issues. Where, however, a national security review is ordered, an investor is afforded the right to make representations to the Minister, and is required to provide any information considered necessary by the Minister for purposes of the review. New National Security Review of Investments Regulations, in effect since September 2009, set out timelines for each step of the national security review process. If the maximum prescribed periods are fully utilized, a national security review could take 130 days (assuming a notice of possible review is issued), with the potential for the Minister of Industry to request from the investor an extension of the review period.

E. *Taxation.*

A brief description of certain provisions of the tax treaty between Canada and the United States, *Canada-United States Tax Convention (1980)*, as amended, (the "Convention"), is included below, together with a brief outline of certain taxes, including withholding provisions, to which United States holders of common stock of the Company are subject under the *Income Tax Act* (Canada) and the regulations thereunder (the "Canadian Tax Act"). The consequences, if any, of provincial, territorial, state, local or foreign taxes (other than Canadian federal income taxes) are not considered.

The following information is of a general nature only and is not, and is not intended to be, legal or tax advice to any holder or prospective holder of common stock of the Company and no representations with respect to the income tax consequences to any such holder are made. Holders of common stock of the Company should seek the advice of their own tax advisors, tax counsel or accountants with respect to the applicability or effect on their own individual circumstances of the matters referred to herein.

Certain Canadian Federal Income Tax Consequences

The discussion under this heading is a general summary of the principal Canadian federal income tax consequences pursuant to the Canadian Tax Act of acquiring, holding and disposing of shares of common stock of the Company for a shareholder of the Company who, at all relevant times and for purposes of the Canadian Tax Act and the Convention, is not, and is not deemed to be, a resident of Canada, and is solely a resident of the United States, holds shares of common stock of the Company as capital property, deals at arm's length and is not affiliated with the Company, and, does not use or hold, is not deemed to use or hold shares of the common stock of the Company in, or in the course of, carrying on business in Canada. (a "U.S. Holder"). This summary is based on the current provisions of the Canadian Tax and on the Company's understanding of the administrative policies and assessing practices of Canada Revenue Agency, in effect as of the date hereof, and takes into account all specific proposals to amend the Canadian Tax Act and regulations to it publicly announced by the Minister of Finance of Canada prior to the date hereof. No assurances can be given that such proposed amendments will be enacted in the form proposed, or at all. This summary is not exhaustive of all potential Canadian federal income tax consequences to a U.S. Holder and does not take into account or anticipate any other changes in law or administrative policies or assessing practices, whether by judicial, governmental or legislative action or decision. This discussion is general only and is not a substitute for independent advice from a shareholder's own Canadian and U.S. tax advisors.

The provisions of the Canadian Tax Act are subject to income tax treaties to which Canada is a party, including the Convention.

Dividends on Common Shares and Other Income

Under the Canadian Tax Act, a non-resident of Canada is generally subject to Canadian non-resident tax at the rate of 25 percent on amounts that are paid or credited or deemed under the Canadian Tax Act to be paid or credited as, on account or in lieu of payment of, or in satisfaction of dividends to a U.S. Holder by a corporation resident in Canada. The Convention limits the rate to 15 percent if the shareholder is a resident of the United States entitled to all of the benefits of the Convention and the dividends are beneficially owned by and paid to such shareholder, and to 5 percent if the shareholder is a corporation entitled to all of the benefits of the Convention that beneficially owns at least 10 percent of the voting stock of the Canadian payor corporation.

The non-resident tax payable on dividends is to be withheld at source by the Company or people acting on its behalf.

Dispositions of Common Shares

Under the Canadian Tax Act, a U.S. Holder will generally not be subject to tax in respect of capital gains realized on the disposition or deemed disposition of shares of the common stock of the Company unless, at the time of disposition, the shares constitute "taxable Canadian property" (as defined in the Canadian Tax Act) of the U.S. Holder at the time of disposition and the U.S. Holder is not entitled to relief under the Convention.

Provided that shares are listed on a “designated stock exchange” (which includes the TSX) at the time of disposition, the shares of common stock of the Company will not constitute taxable Canadian property of a U.S. Holder at a particular time unless (i) at any time in the 60 months immediately preceding the disposition of such shares 25% or more of the issued shares of any class or series in the capital stock of the Company were owned by one or more persons in a group comprising the U.S. Holder and persons with whom the U.S. Holder did not deal at arm's length; and (ii) more than 50% of the fair market value of the common stock of the Company was derived directly or indirectly from one or any combination of: (a) real or immoveable property situated in Canada; (b) “Canadian resource properties” (as defined in the Canadian Tax Act), (c) “timber resource properties” (as defined in the Canadian Tax Act), or (d) options in respect of, or interests in, or for civil law right in, any of the foregoing, whether or not the property exists.

The Convention generally relieves U.S. Holders from liability for Canadian tax on capital gains derived on a disposition of shares that are "taxable Canadian property" unless

(c) the value of the shares is derived principally from "real property" situated in Canada, including the right to explore for or exploit natural resources and rights to amounts computed by reference to production, or

(d) the shareholder was an individual resident in Canada for 120 months during any period of 20 consecutive years preceding the disposition of the shares, and at any time during the 10 years immediately preceding the disposition of the shares the individual was a resident of Canada, and the shares were owned by the individual when he or she ceased to be resident in Canada.

If a U.S. Holder realizes a capital gain or capital loss from a disposition of a share of common stock of the Company which constitutes taxable Canadian property for purposes of the Canadian Tax Act and is not otherwise exempt from Canadian tax under the Convention, then the capital gain or capital loss is the amount, if any, by which the U.S. Holder's proceeds of disposition exceed (or are exceeded by, respectively) the aggregate of the U.S. Holder's adjusted cost base of the share and reasonable expenses of disposition as determined under the Canadian Tax Act. The capital gain or loss must be computed in Canadian currency using a weighted average adjusted cost base for identical properties. Generally one-half of a capital gain (“taxable capital gain”) is included in income for Canadian tax purposes in the year of the disposition, and one-half of a capital loss (“an allowable capital loss”) must be deducted from taxable capital gains realized by the U.S. Holder in that year. Allowable capital losses in excess of taxable capital gains for that year may generally be carried back three years or forward indefinitely and deducted against net taxable capital gains in those years, in the manner permitted under the Canadian Tax Act.

United States Federal Income Tax Consequences

The following is a summary of certain U.S. federal income tax consequences to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of shares of common stock of the Company ("Common Shares").

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences that may apply to a U.S. Holder as a result of the acquisition, ownership, and disposition of Common Shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares. This summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. Each U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the "IRS") has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of Common Shares. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the conclusions described in this summary.

Circular 230 Disclosure

Any statement made herein regarding any U.S. federal tax is not intended or written to be used, and cannot be used, by any taxpayer for purposes of avoiding any penalties. Any such statement herein is written in connection with the marketing or promotion of the transaction to which the statement relates. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Scope of this Disclosure

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, published IRS rulings, published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the "Canada-U.S. Tax Convention"), and U.S. court decisions that are applicable as of the date of this Annual Report. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive basis. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation or proposed changes to the Canada-U.S. Tax Convention.

U.S. Holders

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Common Shares that, for U.S. federal income tax purposes, is (a) an individual who is a citizen or, or resident in, the U.S., (each as defined under U.S. tax laws),(b) a corporation, or other entity classified as a corporation for U.S. federal income tax purposes, that is created or organized in or under the laws of the U.S. or any state in the U.S., including the District of Columbia, (c) an estate if the income of such estate is subject to U.S. federal income tax regardless of the source of such income, or (d) a trust if (i) such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or (ii) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust.

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Non-U.S. Holders

A "non-U.S. Holder" is a beneficial owner of Common Shares other than a U.S. Holder. This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to non-U.S. Holders.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to U.S. Holders that are subject to special provisions under the Code, including but not limited to the following: (a) U.S. Holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. Holders that are financial institutions, insurance companies, real estate investment trusts, regulated investment companies or broker-dealers or dealers in securities; (c) U.S. Holders that have a "functional currency" other than the U.S. dollar; (d) U.S. Holders that are subject to the alternative minimum tax provisions of the Code; (e) former U.S. citizens or former long-term residents of the United States as defined in Section 877 of the Code; (f) U.S. Holders that own Common Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (g) U.S. Holders that acquired Common Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (h) partners of partnerships that hold Common Shares or owners of other entities classified as partnerships or "pass-through" entities for U.S. federal income tax purposes that hold Common Shares, (i) U.S. Holders that hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code, and (j) U.S. Holders that own or have owned (directly, indirectly, or by attribution) 10% or more of the total combined voting power of the outstanding shares of the Company. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own tax advisors regarding the tax consequences of the acquisition, ownership, and disposition of Common Shares.

Tax Consequences Other than U.S. Federal Income Tax Consequences Not Addressed

This summary does not address U.S. state, local or foreign tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares, nor does it address U.S. federal tax consequences other than income tax. Each U.S. Holder should consult its own tax advisors regarding these and other tax consequences of the acquisition, ownership, and disposition of Common Shares.

U.S. Federal Income Tax Consequences of the Acquisition, Ownership, and Disposition of Common Shares

Passive Foreign Investment Company

The Company generally will be a "passive foreign investment company" under Section 1297 of the Code (a "PFIC") if, for a taxable year, (a) 75% or more of the gross income of the Company for such taxable year is passive income or (b) 50% or more of the assets held by the Company either produce passive income or are held for the production of passive income. "Passive income" includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

For purposes of the PFIC income and asset test described above, if the Company owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another foreign corporation, the Company will be treated as if it (a) held a proportionate share of the assets of such other foreign corporation and (b) received directly a proportionate share of the income of such other foreign corporation. If the Company is a PFIC, in addition to the rules discussed below, U.S. Holders generally may be required to file certain information returns with the IRS. The PFIC rules are extremely complex, and U.S. Holders should consult their own U.S. tax advisors concerning the application of the PFIC rules.

The Company believes that it was a PFIC for the taxable year ended December 31, 2011 and, based on current business plans and financial expectations, that it will be a PFIC for the taxable year ending December 31, 2012. There can be no assurance, however, that the IRS will agree with a determination made by the Company concerning its PFIC status.

In any year in which the Company is classified as a PFIC, U.S. Holders would be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidance may require. U.S. Holders should consult their own tax advisors regarding the requirements of filing such information returns under these rules, including the requirement to file a IRS Form 8621.

Default PFIC Rules Under Section 1291 of the Code

If the Company is a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of Common Shares will depend on whether such U.S. Holder makes an election to treat the Company as a "qualified electing fund" or "QEF" under Section 1295 of the Code (a "QEF Election") or makes a mark-to-market election under Section 1296 of the Code (a "Mark-to-Market Election"). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a "Non-Electing U.S. Holder."

A Non-Electing U.S. Holder will be subject to the rules of Section 1291 of the Code with respect to (a) any gain on the disposition of Common Shares and any “excess” distribution paid on the Common Shares.

Under Section 1291 of the Code, any gain recognized on the sale or other disposition of Common Shares, and any excess distribution paid on the Common Shares, must be rateably allocated to each day in a Non-Electing U.S. Holder's holding period for the Common Shares. The amount of any such gain or excess distribution allocated to prior years of such Non-Electing U.S. Holder's holding period for the Common Shares will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year. A Non-Electing U.S. Holder will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had

been due in each such prior year. The amount of any such gain or excess distribution allocated to the current year of such Non-Electing U.S. Holder's holding period for the Common Shares will be treated as ordinary income in the current year (but will not qualify for the preferential dividend rate previously discussed), and no interest charge will be incurred with respect to the resulting tax liability for the current year.

If the Company is a PFIC for any taxable year during which a Non-Electing U.S. Holder holds Common Shares, the Company will continue to be treated as a PFIC with respect to such Non-Electing U.S. Holder, regardless of whether the Company ceases to be a PFIC in one or more subsequent years. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such Common Shares were sold on the last day of the last taxable year for which the Company was a PFIC.

QEF Election

A U.S. Holder that makes a QEF Election generally will not be subject to the rules of Section 1291 of the Code discussed above. However, a U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax annually on such U.S. Holder's pro rata share of (a) “net capital gain” of the Company, which will be taxed as capital gain to such U.S. Holder, and (b) the “ordinary earnings” of the Company, which will be taxed as ordinary income to such U.S. Holder, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company. However, a U.S. Holder that makes a QEF Election may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. In addition, a U.S. Holder that makes a QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of Common Shares, as long as the U.S. Holder always had a QEF election in effect.

Each U.S. Holder should consult its own U.S. tax advisors regarding the advisability of, and procedure for making, a QEF Election. U.S. Holders should be aware that there can be no assurance that the Company will satisfy record keeping requirements so that a U.S. Holder may make certain information returns to the IRS, or that the Company will supply U.S. Holders with information that such U.S. Holders are required to report under the QEF rules, in the event that the Company is a PFIC and a U.S. Holder wishes to make a QEF Election. Thus, U.S. Holders may not be able to make a QEF Election with respect to their Common Shares. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a QEF Election.

Mark-to-Market Election

As an alternative to the foregoing rules, a U.S. Holder may make a Mark-to-Market. A U.S. Holder that makes a Mark-to-Market Election generally will not be subject to the rules of Section 1291 of the Code discussed above. However, if a U.S. Holder makes a Mark-to-Market Election after the beginning of such U.S. Holder's holding period for the Common Shares and such U.S. Holder has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to dispositions of, and certain distributions on, the Common Shares.

A U.S. Holder that makes a Mark-to-Market Election will include as ordinary income, for each taxable year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the Common Shares as of the close of such taxable year over (b) such U.S. Holder's tax basis in such Common Shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the lesser of (a) the excess, if any, of (i) such U.S. Holder's adjusted tax basis in the Common Shares over (ii) the fair market value of such Common Shares as of the close of such taxable year or (b) the excess, if any, of (i) the amount included in ordinary income because of such Mark-to-Market Election for prior taxable years over (ii) the amount allowed as a deduction because of such Mark-to-Market Election for prior taxable years.

A U.S. Holder that makes a Mark-to-Market Election generally also will adjust such U.S. Holder's tax basis in the Common Shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of Common Shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior taxable years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior taxable years).

Each U.S. Holder should consult its own tax advisors regarding the advisability of, and procedure for making, a Mark-to-Market Election.

Other PFIC Rules

Under Section 1291(f) of the Code, the IRS has issued proposed Treasury Regulations that, subject to certain exceptions, would cause a U.S. Holder that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of Common Shares that would otherwise be tax-deferred (e.g., gifts and exchanges pursuant to corporate reorganizations).

An individual U.S. Holder's estate may not receive a step-up in basis in the Common Shares at the U.S. Holder's death, if the Company is or was a PFIC during the U.S. Holder's period of ownership of the Common Shares.

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Certain additional adverse rules will apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether such U.S. Holder makes a QEF Election. For example under Section 1298(b)(6) of the Code, a U.S. Holder that uses Common Shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such Common Shares.

The PFIC rules are complex, and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

Distributions on Common Shares

General Taxation of Distributions

Generally, and subject to the discussion above, concerning PFICs, a U.S. Holder that receives a distribution, including a constructive distribution, with respect to the Common Shares will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated "earnings and profits" of the Company (as determined under U.S. tax principles). To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated (a) first, as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the Common Shares and, (b) thereafter, as gain from the sale or exchange of such Common Shares. (See more detailed discussion at "Disposition of Common Shares" below). However, the Company may not maintain the calculations of earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Holder should therefore assume that any distribution by the Company with respect to the Common Shares will constitute ordinary dividend income. Dividends received on Common Shares generally will not be eligible for the “dividends received deduction”. In addition, the Company does not anticipate that its distributions will constitute qualified dividend income eligible for the preferential tax rates applicable to long-term capital gains. The dividend rules are complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

Disposition of Common Shares

Subject to the discussion of the PFIC rules, above, a U.S. Holder will recognize gain or loss on the sale or other taxable disposition of Common Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's tax basis in the Common Shares sold or otherwise disposed of. Any such gain or loss generally will be capital gain or loss, which will be long-term capital gain or loss if the Common Shares are held for more than one year.

Although preferential tax rates currently apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust, such preferential tax rates are not available if the Company is a PFIC, unless a “qualified electing fund” (“QEF”) election is timely made, as described above. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses and net capital losses are subject to complex limitations.

Foreign Tax Credit

A U.S. Holder who pays (whether directly or through withholding) Canadian income tax with respect to the Common Shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax paid. Generally, a credit is more advantageous because it will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Holder during a year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." Generally, dividends paid by a foreign corporation should be treated as foreign source for this purpose, and gains recognized on the sale of stock of a foreign corporation by a U.S. Holder should be treated as U.S. source for this purpose, except as otherwise provided in an applicable income tax treaty, and if an election is properly made under the Code. In addition, this limitation is calculated separately with respect to specific categories of income known as "baskets", and there are limitations under the basket rules also. Unused foreign tax credits generally can be carried back one year and forward ten years. The foreign tax credit rules are complex, and each U.S. Holder should consult its own tax advisors regarding the foreign tax credit rules.

Receipt of Foreign Currency

The amount of any distribution paid to a U.S. Holder in foreign currency, or on the sale, exchange or other taxable disposition of Common Shares, generally will be equal to the U.S. dollar value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into U.S. dollars at that time). A U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any U.S. Holder who converts or otherwise disposes of the foreign currency after the date of receipt may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Each U.S. Holder should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

Additional Tax on Passive Income

For tax years beginning after December 31, 2012, certain individuals, estates and trusts whose income exceeds certain thresholds will be required to pay a 3.8% Medicare surtax on “net investment income” including, among other things, dividends and net gain from dispositions of property (other than property held in a trade or business). U.S. Holders should consult with their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of Common Shares.

Information Reporting; Backup Withholding Tax

Under U.S. federal income tax law and Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, recently enacted legislation generally imposes new U.S. return disclosure obligations (and related penalties) on individuals who are

U.S. Holders that hold certain specified foreign financial assets in excess of $50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Common Shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult with their own tax advisors regarding the requirements of filing information returns under these rules, including the requirement to file an IRS Form 8938.

Payments of dividends made on, and proceeds arising from certain sales or other taxable dispositions of, Common Shares generally will be subject to information reporting and backup withholding tax, at the rate of 28%, if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, U.S. Holders that are corporations generally are excluded from these information reporting and backup withholding tax rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS. Each U.S. Holder should consult its own tax advisors regarding the information reporting and backup withholding tax rules.

F. *Dividend and paying agents*

Not Applicable

G. *Statement by experts.*

The references herein to excerpts of or summaries from the "Gahcho Kué Project, Definitive Feasibility Study, NI 43-101 Technical Report, Northwest Territories, Canada" dated December 1, 2010 (Information effective as of October 15, 2010)" have been consented to by Daniel D. Johnson, P.Eng., Michael Makarenko, P.Eng, and Kenneth Meikle, P.Eng., all of JDS at Suite 4 - 1441 St. Paul Street, Kelowna, British Columbia, Canada V1Y 2E4.

H. *Documents on display.*

Any statement in this Annual Report about any of the Company's contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this Annual Report, the contract or document is deemed to modify the description contained in this Annual Report. Readers must review the exhibits themselves for a complete description of the contract or document.

Readers may review a copy of the Company's filings with the U.S. Securities and Exchange Commission ("the "SEC"), including exhibits and schedules filed with it, at the SEC's public reference facilities at 100 F Street, N.E., Washington, D.C. 20549. Readers may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC maintains a Web site (http://www.sec.gov) that contains reports, submissions and other information regarding registrants that file electronically with the SEC. The Company has only recently become subject to the requirement to file electronically through the EDGAR system most of its securities documents, including registration statements under the Securities Act of 1933, as amended and registration statements, reports and other documents under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Readers may read and copy any reports, statements or other information that the Company files with the SEC at the address indicated above and may also access them electronically at the Web site set forth above. These SEC filings are also available to the public from commercial document retrieval services.

The Company is required to file reports and other information with the SEC under the Exchange Act. Reports and other information filed by the Company with the SEC may be inspected and copied at the SEC's public reference facilities described above. As a foreign private issuer, the Company is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and the Company's officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in section 16 of the Exchange Act. Under the Exchange Act, as a foreign private issuer, the Company is not required to publish financial

statements as frequently or as promptly as United States companies.

Any of the documents referred to above can also be viewed at the offices of the Company's attorneys, Dorsey and Whitney LLP, 161 Bay Street, Suite 4310, Toronto, Ontario M5J 2S1. All of the documents referred to above are in English.

I. *Subsidiary Information.*

Not applicable.

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Item 11. Quantitative and Qualitative Disclosures About Market Risk.

The Company owns shares of other listed companies. Certain of these shares are presented under current assets on the Company's balance sheet as at December 31, 2011 as "Marketable Securities" at an amount of $17,678, which is their quoted market value. Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flows of the Company due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market or price risks.

As the Company is in the feasibility and permitting stage, it presently has no activities related to derivative financial instruments or derivative commodity instruments.

The financial results are quantified in Canadian dollars. In the past, the Company has raised equity funding through the sale of securities denominated in Canadian dollars, and the Company may in the future raise additional equity funding or financing denominated in Canadian dollars. The Company currently does not believe it currently has any materially significant market risks relating to operations resulting from foreign exchange rates. However, if the Company enters into financing or other business arrangements denominated in currency other than the Canadian or United States dollar, variations in the exchange rate may give rise to foreign exchange gains or losses that may be significant.

The Company currently has no long-term debt obligations. The Company does not use financial instruments for trading purposes and is not a party to any leverage derivatives. In the event the Company experiences substantial growth in the future, the Company's business and results of operations may be materially affected by changes in interest rates and certain other credit risk associated with the Company's operations.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not Applicable.

Item 15. Controls and Procedures.

(a) **Disclosure Controls and Procedures**.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13(a)-15(e) and 15(d)-15(e) under the "Exchange Act" as of the end of the period covered by this annual report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in (i) alerting them with reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and (ii) alerting them on a timely basis to material information relating to the Company required to be included in our reports filed or submitted under the Exchange Act.

(b) **Management's Annual Report on Internal Control Over Financial Reporting.**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as issued by the International Accounting Standards Board.

Because of its inherent limitations, the Company's internal control over financial reporting may not prevent or detect all possible misstatements or frauds. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

To evaluate the effectiveness of the Company's internal control over financial reporting, Management has used the Internal Control – Integrated Framework, which is a suitable, recognized control framework established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management has assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective as of December 31, 2011.

(c) **Attestation Report of the Company's Registered Accounting Firm.**

The Registrant's independent registered public accounting firm, KPMG LLP, has issued an attestation report expressing an opinion on the Company's internal control over financial reporting as of December 31, 2011. For KPMG LLP's report, see Item 19 of this Annual Report on Form 20-F.

(d) **Changes in Internal Controls over Financial Reporting.**

There have not been any changes in the Company's internal controls over financial reporting or in other factors that have been identified in connection with the evaluation described above that occurred during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 16A. Audit Committee Financial Expert.

The Company's Board of Directors has determined that there is at least one audit committee financial expert, as defined under Item 16A of Form 20-F, serving on its audit committee, namely, David Whittle, whose qualifications are set out in Item 6, above. Mr. Whittle is independent, as such term is defined by the listing standards of the NYSE Amex. All other members of the Audit Committee are also independent as defined by the listing standards of the NYSE Amex.

Item 16B. Code of Ethics.

The Board of Directors, on February 2, 2003, adopted a Code of Ethics (the "Code") entitled "Ethics and Conflict of Interest Policy" which applies to each of the directors and officers of the Company and its affiliates. A copy of the 2003 Code has been previously filed. On May 29, 2006, the Board of Directors adopted an updated and expanded set of Corporate Governance Policies, which replaced the 2003 Code. On September 7, 2010, the Board of Directors approved an updated set of the 2006 Corporate Governance Policies. A copy of the updated 2006 Corporate Governance Policies has been previously filed, and is incorporated by reference to this Annual Report.

The Corporate Governance Policy governs the actions of and is applicable to all of the directors and officers of the Company and its subsidiaries, and their affiliates. The updated 2006 Corporate Governance Policies address the following:

- compliance with all the laws and regulations identified therein and with the requirements of the U.S. Securities and Exchange Commission as mandated by the Sarbanes-Oxley Act of 2002, and the requirements of the Toronto Stock Exchange;
- corporate opportunities and potential conflicts of interest;
- the quality of public disclosures;
- the protection and appropriate use of the Company's assets and resources;
- the protection of confidential information;
- insider trading;
- fair behaviour; and
- reporting violations of the Policy or Board Directives.

The Company has also adopted an Insider Trading Policy which applies to all employees of the Company.

The Company will provide a copy of the updated 2006 Corporate Governance Policies to any person, without charge. To obtain a copy without charge, send a request, in writing, to the Company at Mountain Province Diamonds Inc., Attention: Corporate Secretary, 161 Bay Street, Suite 2315, PO Box 216, Toronto, Ontario, Canada M5J 2S1.

Item 16C. Principal Accountant Fees and Services.

A. *Audit Fees*

"Audit Fees" are the aggregate fees billed by KPMG LLP (“KPMG”) for the audit of the Company's consolidated annual financial statements, assistance with interim financial statements, attestation services that are provided in connection with statutory and regulatory filings or engagements, services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies and stock exchanges and other documents issued in connection with securities offerings and admissions to trading, and assistance in responding to comment letters from securities regulatory bodies, and consultations with the Company's management as to accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards

or interpretations by the securities regulatory authorities, accounting standard setting bodies, or other regulatory or standard setting bodies.

Aggregate audit fees billed in fiscal December 31, 2011 by KPMG were $208,500 including fees for reviews of March 31, 2011, June 30, 2011 and September 30, 2011 and comparative quarters, and including audit fees relating to the Company’s transition to IFRS and the audit of Kennady Diamonds financial statements relating to the proposed spin-out. The Company was billed $182,000 in the fiscal year ending December 31, 2010. All such fees were approved by the Audit Committee.

B. *Audit-Related Fees*

"Audit-Related Fees" are fees that are or would be charged by KPMG for presentations or training on accounting or regulatory pronouncements including IFRS, due diligence services related to accounting and tax matters in connection with potential acquisitions/dispositions, advice and documentation assistance with respect to internal controls over financial reporting and disclosure controls and procedures of the Company, and if applicable, audits of financial statements of a company's employee benefit plan. "Audit Related Fees" charged by KPMG during the fiscal period ended December 31, 2011 were $nil and $30,000 for the fiscal year ending December 31, 2010. All such services were approved by the Audit Committee.

C. *Tax Fees*

"Tax Fees" are fees for professional services rendered by KPMG for tax compliance, tax advice on actual or contemplated transactions.

Aggregate tax fees billed in fiscal December 2011 by KPMG were $16,785 (December 31, 2010 - $12,000) pertaining to tax compliance. These services were approved by the Audit Committee.

D. *All Other Fees*

In the fiscal year ending December 31, 2011, aggregate fees billed by KPMG were $nil for advice (December 31, 2010 - $nil).

The Audit Committee pre-approves all audit services to be provided to the Company by its independent auditors. The Audit Committee's policy regarding the pre-approval of non-audit services to be provided to the Company by its independent auditors is that all such services shall be pre-approved by the Audit Committee. Non-audit services that are prohibited to be provided to the Company by its independent auditors may not be pre-approved. In addition, prior to the granting of any pre-approval, the Audit Committee must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors. All non-audit services, performed by the Company's auditor, for the fiscal year ended December 31, 2011, were pre-approved by the Audit Committee of the Company. No non-audit services were approved pursuant to the *de minimis* exemption to the pre-approval requirement.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

There were no purchases made by or on behalf of the Company or any affiliated purchaser of shares or other units of the Company's equity securities.

Item 16F. Change in Registrant's Certifying Accountant.

Not Applicable.

Item 16G. Corporate Governance.

NYSE Amex Corporate Governance Matters

The MPV Shares are listed on NYSE Amex. Section 110 of the NYSE Amex Company Guide permits the NYSE Amex to consider the laws, customs and practices of the foreign issuer's country of domicile in relaxing certain NYSE Amex listing criteria. A description of the significant ways in which the Company's governance practices differ from those followed by domestic companies pursuant to NYSE Amex standards is as follows:

- *Shareholder Meeting Quorum Requirement*: The NYSE Amex minimum quorum requirement for a shareholder meeting is one-third of the outstanding common shares. In addition, a company listed on NYSE Amex is required to state its quorum requirement in its bylaws. The Company's quorum requirement (set forth in its Articles) is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting.
- *Proxy Delivery Requirement*: NYSE Amex requires the solicitation of proxies and delivery of proxy statements for all shareholder meetings, and requires that these proxies shall be solicited pursuant to a proxy statement that conforms to SEC proxy rules. The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and Rule 405 under the Securities Act and the equity securities of the Company are accordingly exempt from the proxy rules set forth in Sections 14(a), 14(b), 14(c) and 14(f) of the Exchange Act. The Company solicits proxies in accordance with applicable rules and regulations in Canada.

- *Shareholder Approval Requirement:* The Company will follow the Canadian securities regulatory authorities and TSX rules for shareholder approval of new issuances of its common shares. Following securities and exchange rules, shareholder approval is required for certain issuances of shares that: (i) materially affect control of the Company; or (ii) provide consideration to insiders in aggregate of 10% or greater of the market capitalization of the listed issuer and have not been negotiated at arm's length. Shareholder approval is also required, pursuant to TSX rules, in the case of most private placements: (x) for an aggregate number of listed securities issuable greater than 25% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of closing of the transaction if the price per security is less than the market price; or (y) that during any six month period are to insiders for listed securities or options, rights or other entitlements to listed securities greater than 10% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of the closing of the first private placement to an insider during the six month period.
- *Board of Director Nomination Requirements*: the NYSE Amex requires Board of Director nominations must be either selected, or recommended for the Board's selection, by either a nominating committee comprised solely of independent directors or by a majority of the independent directors. The Company currently does not have a nominating committee and follows the Canadian securities regulatory authority and Toronto Stock Exchange rules with respect to the nomination and selection of directors. The directors of the Company are elected annually and hold office until the next annual general meeting of the shareholders of the Company or until their successors in office are duly elected or appointed.
- *Executive Sessions:* the NYSE Amex requires the Company to hold meetings of its Board of Directors on at least a quarterly basis. The independent directors should meet on a regular basis as often as necessary to fulfill their responsibilities, including at least annually in executive session without the presence of non-independent directors and management. The Company follows the Canadian securities regulatory authority and Toronto Stock Exchange rules. The Company is not required to, and currently does not, conduct executive sessions without the presence of non-independent directors and management.

Item 16H. Mine Safety Disclosure.

Not applicable.

PART III

Item 17. Financial Statements.

The Company's consolidated financial statements are stated in Canadian dollars and are prepared in accordance with IFRS as issued by the IASB.

The financial statements and notes thereto as required under Item 17 are attached hereto and filed as part of this Annual Report, are individually listed under Item 19, and are found immediately following the text of this Annual Report. The audit report of KPMG LLP, independent registered public accounting firm, is included herein immediately preceding the financial statements.

For audited financial statements for the year ended December 31, 2011 and 2010, please see Item 19 below.

Item 18. Financial Statements.

Not Applicable.

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Item 19. Exhibits

Financial Statements

The Consolidated Financial Statements of the Company and exhibits listed below are filed with this annual report on Form 20-F in the United States. This report is also filed in Canada as an Annual Information Form and the Canadian filing includes the Consolidated Financial Statements and exhibits listed below. Canadian investors should refer to the audited Financial Statements of the Company for the year ended December 31, 2011 and 2010 filed with Canadian Securities Regulators on SEDAR under "Audited Annual Financial Statements - English" and incorporated herein by reference.

The following financial statements are attached to and form a part of this report filed with the SEC (see Appendix):

Consolidated Financial Statements of the Company:

- Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting.
- Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements.
- Consolidated Balance Sheets as of December 31, 2011, December 31, 2010, and January 1, 2010 (the transition date to IFRS).
- Consolidated Statements of Equity for the years ended December 31, 2011 and 2010.
- Consolidated Statements of Comprehensive Loss for the years ended December 31, 2011 and 2010.
- Consolidated Statements of Cash Flows for the years ended December 31, 2011 and 2010.
- Notes to the Consolidated Financial Statements.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Mountain Province Diamonds Inc.
(Company)

By: "Patrick C. Evans"
(Signature)*

Date: March 26, 2011 Patrick C. Evans
President, CEO and Director

*Print the name and title of the signing officer under this signature.

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EXHIBIT INDEX

The following exhibits are attached to and form part of this Annual Report:

Exhibit		Remarks.
1.1	By-Laws of the Company	(3)
1.2	Arrangement Agreement between the Company and Glenmore Highlands Inc. dated May 10, 2000.	(5)
1.3	Joint Information Circular of the Company and Glenmore Highlands Inc.	(4)
4.1	Transfer agreement between MPV, Monopros and Camphor dated November 24, 1999 pursuant to which MPV and Camphor transferred the GOR to Monopros.	(3)
4.2	Letter Agreement between MPV, Monopros, Glenmore and Camphor dated December 17, 1999 relating to acquisition of property, within the "Area of Interest" as defined in the agreement and acquisition of property through third party agreements.	(3)
4.3	Letter Agreement dated December 17, 1999 between MPV, Monopros, Camphor and Glenmore amending the Monopros Joint Venture Agreement.	(3)
4.4	Form of Subscription Agreement for the private placement described in item 1 of "Material Contracts".	(3)
4.5	Agreement dated as of January 1, 2002 between the Company, Camphor Ventures Inc. and De Beers Canada Exploration Inc.	(1)
4.6	Second Amendment Agreement dated January 1, 2002 between the Company and Paul Shatzko.	(3)
4.7	Second Amendment Agreement dated January 1, 2002 between the Company and Jan Vandersande.	(3)
4.8	Third Amendment Agreement dated December 13, 2002 between the Company and Jan Vandersande	(3)
4.9	Letter agreement dated December 13, 2002 between the Company and Elizabeth Kirkwood	(3)
4.10	Consulting Agreement dated January 1, 2004 between the Company and Jan W. Vandersande	(3)
4.11	Consulting Agreement dated November 1, 2005 between the Company and Patrick Evans	(3)
4.12	Revised Consulting Agreement dated January 31, 2006 between the Company and Patrick Evans	(3)
4.13	Consulting Agreement dated May 11, 2006 between the Company and Jennifer Dawson	(3)
8.1	List of Subsidiaries	(2)
11.1	Corporate Governance Policies dated May 29, 2006, and updated September 7, 2010	(3)
11.2	Ethics and Conflict of Interest Policy	(3)
12.1	Section 302 Certification of the Company's Chief Executive Officer	-
12.2	Section 302 Certification of the Company's Chief Financial Officer	-
13.1	Section 906 Certification of the Company's Chief Executive Officer	-
13.2	Section 906 Certification of the Company's Chief Financial Officer	-
15.1	Independent Qualified Persons' Technical Report dated April 20, 2009 entitled Gahcho Kué Kimberlite Project NI 43-101 Technical Report prepared by Ken Brisebois, P.Eng., Dr. Ted Eggleston, P.Geo., and Alexandra Kozak, P.Eng., all of AMEC Americas Limited.	(6)
15.2	Independent Qualified Persons' Technical Report dated December 1, 2010 (with Information Effective as of October 15, 2010) entitled "Gahcho Kué Definitive Feasibility Study NI 43-101 Technical Report" prepared by Daniel D. Johnson, Mike Makarenko, and Ken Meikle, all of JDS Energy and Mining Inc.	(7)
15.3	Consents for inclusion of the Technical Report in Exhibit 15.1 and reference in Form 20-F	(6)

15.4 Consents for use of information of the Technical Report in Exhibit 15.2 and reference in Form 20-F -

(1) The Registrant has received approval for confidential treatment with respect to certain portions of this Agreement, which have been omitted, pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(2) See list of subsidiaries on page 11 of this Annual Report.

(3) Previously filed and incorporated by reference.

(4) Previously furnished under cover of Form 6K dated June 2, 2000 and incorporated by reference.

(5) Attached as Appendix A to the Joint Information Circular of the Company and Glenmore Highlands Inc. which information circular was previously furnished under cover of Form 6K dated June 2, 2000, and incorporated by reference.

(6) Previously filed and incorporated by reference.

(7) Previously filed under Form 6K dated December 3, 2010, and incorporated by reference.

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Appendix

Item 17. Financial Statements

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Consolidated Financial Statements

(Expressed in Canadian Dollars)

MOUNTAIN PROVINCE
DIAMONDS INC.

Year ended December 31, 2011 and 2010

MOUNTAIN PROVINCE DIAMONDS INC.

Responsibility for
Consolidated Financial Statements

The accompanying consolidated financial statements of Mountain Province Diamonds Inc. (the "Company") are the responsibility of the Board of Directors.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility.

The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

“Patrick C. Evans”	“Jennifer Dawson”
Patrick C. Evans	Jennifer Dawson
President and Chief Executive Officer	Chief Financial Officer

Toronto, Canada

March 27, 2012

kpmg llp

Chartered Accountants	Telephone (416) 777-8500
Bay Adelaide Centre	Telefax (416) 777-8818
333 Bay Street, Suite 4600	www.kpmg.ca
Toronto, ON M5H 2S5	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Mountain Province Diamonds Inc.

We have audited the accompanying consolidated balance sheets of Mountain Province Diamonds Inc., as of December 31, 2011, December 31, 2010 and January 1, 2010, the related consolidated statements of comprehensive loss, equity and cash flows for the years ended December 31, 2011 and December 31, 2010. These consolidated financial statements are the responsibility of Mountain Province Diamonds Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mountain Province Diamonds Inc. as of December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Mountain Province Diamonds Inc.'s internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 26, 2012 expressed an unqualified opinion on the effectiveness of Mountain Province Diamonds Inc.'s internal control over financial reporting.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.KPMG Canada provides services to KPMG LLP.

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The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred a net loss of $11,538,935 during the year ended December 31, 2011 and expects to require additional capital resources to meet planned expenditures in 2012 that raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 27, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors of Mountain Province Diamonds Inc.

We have audited Mountain Province Diamonds Inc.'s internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Mountain Province Diamonds Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, in management's Annual Report on Internal Control over Financial Reporting included in its Form 20-F for the year ended December 31, 2011. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.KPMG Canada provides services to KPMG LLP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Mountain Province Diamonds Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Mountain Province Diamonds Inc. as of December 31, 2011, December 31, 2010 and January 1, 2010, and the related consolidated statements of comprehensive loss, equity and cash flows for each the years ended December 31, 2011 and December 31, 2010, and our report dated March 27, 2012 expressed an unqualified opinion on those consolidated financial statements.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 27, 2012

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MOUNTAIN PROVINCE DIAMONDS INC.

Consolidated Balance Sheets

In Canadian dollars

	December 31, 2011	December 31, 2010 (Note 15)	January 1, 2010 (Note 15)
ASSETS			
Current assets			
Cash and cash equivalents (Note 5)	$21,546	$23,778,053	$208,559
Short-term investments (Note 5)	17,819,183	9,777,089	9,733,718
Marketable securities (Note 5)	17,678	23,062	13,431
Amounts receivable (Note 5)	350,559	499,192	269,979
Advances and prepaid expenses	101,641	134,174	39,173
	18,310,607	34,211,570	10,264,860
Property and equipment (Note 6)	43,225	42,753	44,100
Gahcho Kué Joint Venture (Note 7)	48,202,682	36,981,785	35,730,073
Total assets	$66,556,514	$71,236,108	$46,039,033
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	$3,246,132	$4,760,390	$1,949,489
Warrants exerciseable in a foreign currency (Note 9)	-	4,749,232	1,093,500
Total current liabilities	3,246,132	9,509,622	3,042,989
Decommissioning and restoration liability (Note 8)	6,178,004	5,704,096	8,187,088
Shareholders' equity:			
Share capital (Note 9)	146,911,995	133,344,866	97,312,714
Value assigned to warrants (Note 9)	-	969,942	1,051,564
Share-based payments reserve (Note 9)	1,083,422	1,026,302	1,238,302
Deficit	(90,876,085)	(79,337,150)	(64,802,423)
Accumulated other comprehensive income	13,046	18,430	8,799
Total shareholders' equity	57,132,378	56,022,390	34,808,956
Total liabilities and shareholders' equity	$66,556,514	$71,236,108	$46,039,033

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

Going concern (Note 1)

Contingencies and commitments (Notes 7 and 11)

Subsequent events (Notes 9 (iii) and 16)

MOUNTAIN PROVINCE DIAMONDS INC.

Consolidated Statements of Comprehensive Loss

In Canadian dollars

	Year Ended December 31, 2011	Year Ended December 31, 2010
Expenses:		
Consulting fees (Note 9)	$ (1,631,188)	$ (721,987)
Depreciation	(14,789)	(8,820)
Exploration and evaluation expenses	(9,032,585)	(7,965,708)
Gahcho Kué Project management fee	(236,464)	(162,613)
Office and administration	(458,467)	(200,274)
Professional fees	(361,148)	(340,051)
Promotion and investor relations	(109,854)	(78,499)
Salary and benefits	(97,812)	(45,162)
Transfer agent and regulatory fees	(169,489)	(124,255)
Travel	(156,659)	(117,107)
Net loss for the year from operations	(12,268,455)	$ (9,764,476)
Other expenses:		
Accretion expense on decommissioning and restoration liability (Note 8)	(63,315)	(125,263)
Loss on revaluation of warrants exerciseable in a foreign currency	-	(4,767,578)
Other income:		
Interest income	303,354	122,590
Gain on revaluation of warrants exerciseable in a foreign currency	489,481	-
Net loss for the year	(11,538,935)	(14,534,727)
Other Comprehensive (Loss) Income		
Change in fair value of available-for-sale marketable securities	(5,384)	9,631
Comprehensive loss for the year	$ (11,544,319)	$ (14,525,096)
Basic and diluted loss per share	$ (0.15)	$ (0.21)
Weighted average number of shares outstanding	79,553,515	70,833,448

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

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MOUNTAIN PROVINCE DIAMONDS INC.

Consolidated Statements of Equity

In Canadian dollars

	Number of shares	Share Capital	Warrants	Share-based Payments Reserve	Retained Earnings (Deficit)	Total accumulated other comprehensive income (loss) ("AOCI")	Total
Balance, January 1, 2010	66,631,746	$97,312,714	$1,051,564	$1,238,302	$(64,802,423)	$8,799	$34,808,956
Net loss for the year		-	-	-	(14,534,727)	-	(14,534,727)
Issuance of common shares – private placement	10,076,177	33,048,756	-	-	-	-	33,048,756
Issuance of common shares – exercise of options	150,000	326,000	-	-	-	-	326,000
Issuance of common shares – exercise of warrants	558,134	1,251,928	-	-	-	-	1,251,928
Fair value of options exercised from Share-based Payments Reserve	-	212,000	-	(212,000)	-	-	-
Fair value of warrants exercised (exerciseable in a foreign currency)	-	1,111,846	-	-	-	-	1,111,846
Fair value of warrants exercised transferred from Warrants	-	81,622	(81,622)	-	-	-	-
Other Comprehensive Income (loss):							
Available-for-sale financial assets							

- current year gains (losses)	-	-	-	-	-	9,631	9,631
Balance, December 31, 2010	77,416,057	$133,344,866	$969,942	$1,026,302	$(79,337,150)	$18,430	$56,022,390
Net loss for the year		-	-	-	(11,538,935)	-	(11,538,935)
Issuance of common shares – exercise of options	270,635	665,000	-	-		-	665,000
Issuance of common shares – exercise of warrants	2,658,866	7,242,471	-	-	-	-	7,242,471
Fair value of options exercised from Share-based Payments Reserve	-	429,965	-	(429,965)	-	-	-
Fair value of warrants exercised (exerciseable in a foreign currency)	-	4,259,751	-	-	-	-	4,259,751
Fair value of warrants exercised transferred from Warrants	-	969,942	(969,942)	-	-	-	-
Fair value of options granted in period	-	-	-	487,085	-	-	487,085
Other Comprehensive Income (loss):							
Available-for-sale financial assets							
- current year gains (losses)	-	-	-	-	-	(5,384)	(5,384)
Balance, December 31, 2011	80,345,558	$146,911,995	$-	$1,083,422	$(90,876,085)	$13,046	$57,132,378

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

MOUNTAIN PROVINCE DIAMONDS INC.

Consolidated Statements of Cash Flows

In Canadian dollars

	Year ended December 31, 2011	Year ended December 31, 2010
Cash provided by (used in):		
Operating activities:		
Net loss for the period	$ (11,538,935)	$ (14,534,727)
Adjustments:		
(Gain) loss on revaluation of warrants exerciseable in a foreign currency	(489,481)	4,767,578
Interest expense on decommissioning and restoration liability	63,315	125,263
Depreciation	14,789	8,820
Stock-based compensation	487,085	-
Interest income	(303,354)	(122,590)
Changes in non-cash operating working capital:		
Amounts receivable	148,633	(229,213)
Advances and prepaid expenses	32,533	(95,001)
Accounts payable and accrued liabilities	(1,514,258)	2,810,901
	(13,099,673)	(7,268,969)
Investing activities:		
Investment in Gahcho Kué Joint Venture	(10,810,304)	(3,859,967)
Interest income	303,354	122,590
Increase in share of fixed assets of joint venture	(15,261)	(7,473)
Investment in short-term investments	(8,042,094)	(43,371)
	(18,564,305)	(3,788,221)
Financing activities:		
Share issuance, net of cost	-	33,048,756
Proceeds from option exercises	665,000	326,000
Proceeds from warrant exercises	7,242,471	1,251,928
	7,907,471	34,626,684
Increase (decrease) in cash and cash equivalents	(23,756,507)	23,569,494
Cash and cash equivalents, beginning of the year	23,778,053	208,559
Cash and cash equivalents, end of the year	$ 21,546	$ 23,778,053

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

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2011
In Canadian Dollars

1. Nature of Operations AND Going CONCERN

Mountain Province Diamonds Inc. ("Mountain Province" or the "Company") was incorporated on December 2, 1986 under the British Columbia Company Act. The Company amended its articles and continued incorporation under the Ontario Business Corporation Act effective May 8, 2006. The Company is involved in the discovery and development of diamond properties in Canada's Northwest Territories.

The address of the Company's registered office and its principal place of business is 161 Bay Street, Suite 2315, PO Box 216, Toronto, ON, Canada, M5J 2S1. The Company's shares are listed on the Toronto Stock Exchange under the symbol 'MPV' and on the New York Stock Exchange – Amex under the symbol 'MDM'.

The Company is in the process of developing and permitting its mineral properties primarily in conjunction with De Beers Canada Inc. ("De Beers Canada") (Note 7). The underlying value and recoverability of the amounts shown as "Interest In Gahcho Kué Joint Venture" is dependent upon the ability of the Company and/or its mineral property partner to develop economically recoverable reserves, to have successful permitting and development, and upon future profitable production or proceeds from disposition of the Company's mineral properties. Failure to develop economically recoverable reserves will require the Company to write off costs capitalized to date.

As at December 31, 2011, the Company has not achieved profitable operations and continues to be dependent upon its ability to obtain external financing to meet the Company's liabilities as they become payable. The Company's ability to continue operations beyond the next twelve months is dependent on the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to fund its operations, and the future production or proceeds from developed properties.

The Company's mineral assets are in the exploration and evaluation stage and, as a result, the Company has no source of revenues. In the year ended December 31, 2011, the Company incurred losses amounting to $11,538,935, had negative cash flows from operations of $13,099,673, and will be required to obtain additional sources of financing to complete its business plans going into the future. Although the Company had working capital of $15,064,475 at December 31, 2011, including $17,840,729 of cash and short-term investments, the Company has insufficient capital to finance its operations and the Company's costs of the Gahcho Kué Project (Note 7) over the next 12 months. The Company is currently investigating various sources of additional liquidity to increase the cash balances required for ongoing operations over the foreseeable future. These additional sources include, but are not limited to, share offerings, private placements, credit facilities, and debt, as well as exercises of outstanding options and warrants. However, there is no certainty that the Company will be able to obtain financing from any of those sources. These conditions indicate the existence of a material uncertainty that results in substantial doubt as to the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, and do not reflect adjustments to assets and liabilities that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

Authorization of Financial Statements

The consolidated financial statements for the year ended December 31, 2011 (including comparatives) were approved by the Board of Directors on March 26, 2012.

2. BASIS OF PRESENTATION

These consolidated financial statements of the Company, including its subsidiaries and joint venture, were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1, *First-time Adoption of IFRS* ("IFRS 1"). The policies set out below were consistently applied to all the periods presented.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2011
In Canadian Dollars

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") which differs in some areas from IFRS. Reconciliations and descriptions of the effects of the transition from Canadian GAAP to IFRS on equity, operations, and comprehensive income are provided in Note 15.

These financial statements were prepared under the historical cost convention, as modified by the revaluation of cash and cash equivalents, short-term investments and available-for-sale financial assets at fair value.

3. Significant accounting policies

(i) Basis of Preparation

The consolidated financial statements are presented in accordance with IAS 1, *Presentation of Financial Statements.*

The Company has elected to present the 'Statements of Comprehensive Loss' as a single financial statement with its Statements of Income, titled 'Consolidated Statements of Comprehensive Loss'.

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

(ii) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany amounts and transactions have been eliminated on consolidation. The Company's interest in the Gahcho Kué joint venture has been proportionally consolidated (see Note 7).

Subsidiaries are entities controlled by the Company. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation.

The Company's interest in the Gahcho Kué joint venture is bound by a contractual arrangement establishing joint control over the joint venture through required unanimous consent of each of the joint venturers for strategic, financial and operating policies of the Gahcho Kué Joint Venture. The Company's interest in the Gahcho Kué joint venture is managed through a jointly controlled unincorporated entity, known as the Gahcho Kué Joint Venture, in which each of the Company (including its wholly-owned subsidiary, Camphor Ventures Inc.), and its joint venture partner, De Beers Canada, have an interest. The Gahcho Kué Joint Venture management committee has two representatives of each of Mountain Province and De Beers Canada. The joint venture partners have appointed De Beers Canada as the operator of the Gahcho Kué Joint Venture.

(iii) Foreign Currency

The Company's presentation currency is the Canadian Dollar ("CAD"). The functional currency of the Company, its subsidiaries, and the Gahcho Kué Joint Venture is the Canadian Dollar.

In preparing the consolidated financial statements, transactions in currencies other than the Company's functional currency, known as foreign currencies, are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2011
In Canadian Dollars

Exchange differences are recognized in profit or loss in the period in which they arise and presented in consolidated Statements of Comprehensive Loss within Office and administration.

During the year ended December 31, 2011, $241,564 of foreign exchange loss was recognized in Office and administrative costs, in the Company's Statement of Comprehensive Loss (December 31, 2010 - $41,130).

(iv) Interest income

Interest income from financial assets is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on the basis of time that has passed, by reference to the principal outstanding and at the effective interest rate applicable.

(v) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in Note 9 below.

The fair value determined at the grant date of the equity-settled share-based payments is expensed to the Statement of Comprehensive Loss over the vesting period, if any, which is the period during which the employee becomes unconditionally entitled to equity instruments. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest, if any. The Company's equity-settled share-based payments granted to date vest immediately.

Equity-settled share-based payment transactions with parties other than employees, if any, are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

(vi) Income Taxes and Deferred Taxes

The income tax expense or benefit for the period consists of two components: current and deferred. Income tax expense or benefit is recognized in the Statement of Comprehensive Loss except to the extent it relates to a business combination or items recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Taxable profit or loss differs from profit or loss as reported in the Statement of Comprehensive Loss because of items of income or expense that are taxable or deductible in other years, and items that are never taxable or deductible.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, loss carryforwards and tax credit carryforwards to the extent that it is probable that taxable profits will be available against which they can be utilized. To the extent that the Company does not consider it to be probable that taxable profits will be available against which deductible temporary differences, loss carryforwards, and tax credit carryforwards can be utilized, a deferred tax asset is not recognized.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly into equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

(vii) Mineral properties and exploration and evaluation costs

Exploration and evaluation (“E&E”) costs are those costs required to find a mineral property and determine commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves.

Exploration and evaluation costs consist of:

- gathering exploration data through topographical and geological studies;
- exploratory drilling, trenching and sampling;
- determining the volume and grade of the resource;
- test work on geology, metallurgy, mining, geotechnical and environmental; and
- conducting engineering, marketing and financial studies.

Project costs in relation to these activities are expensed as incurred until such time as the Company makes a formal decision to develop a mine to extract the mineral reserves. Once the decision to develop the mine is made, and subject to an impairment analysis, capitalized acquisition costs included in the Gahcho Kué Joint Venture are transferred to capitalized costs within property, plant and equipment, or intangible assets, as appropriate. The decision to develop a mine may be impacted by management's assessment of legal, environmental, social and governmental factors.

The Company also recognizes exploration and evaluation costs as assets when acquired as part of a business combination, or asset purchase, or as a result of rights acquired relating to a mineral property. These assets are recognized at fair value. Acquired capitalized exploration and evaluation consists of:

- interest in exploration properties,
- amounts paid for acquired rights associated with exploration properties, and
- amounts paid in connection with sunk cost repayments (Note 7).

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(viii) Property and equipment

Property and equipment are recorded and measured at initial recognition at cost. Amortization is provided on items of property and equipment so as to write off their carrying value over their expected useful economic lives. Amortization is calculated once the asset is in use, and at the following rates:

Computer equipment	three years, straight-line
Production equipment	five years, straight-line
Vehicles	five years, straight-line

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated Statement of Comprehensive Loss when the asset is derecognized. The assets' residual values, useful lives and methods of amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

(ix) Impairment of non-financial assets

The carrying value of the Company's capitalized acquired mineral property is assessed for impairment when indicators of such impairment exist. Property and equipment is assessed for impairment at the end of each reporting period. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated to determine the extent of the impairment loss, if any. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment is determined on an asset by asset basis, whenever possible. If it is not possible to determine impairment on an individual asset basis, then impairment is considered on the basis of a cash generating unit ("CGU"). CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or Company's other group of assets. The Company has determined that it operates one CGU.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged immediately to the Statement of Comprehensive Loss so as to reduce the carrying amount to its recoverable amount. Impairment losses related to continuing operations are recognized in the Statement of Comprehensive Loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Consolidated Statement of Comprehensive Loss.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2011
In Canadian Dollars

(x) Financial instruments

Financial instruments are classified into one of the following four categories: loans and receivables; fair value through profit or loss; held-to-maturity; and available-for-sale. Financial assets are initially measured at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

- Financial assets and financial liabilities at fair value through profit and loss include financial assets and financial liabilities that are held for trading or designated upon initial recognition as at fair value through profit and loss. These financial instruments are measured at fair value with changes in fair values recognized in the Statement of Comprehensive Loss.

- Financial assets classified as available-for-sale are measured at fair value, with changes in fair values recognized as Other Comprehensive Income ("OCI") in the Statement of Comprehensive Loss, except when there is objective evidence that the asset is impaired, at which point the cumulative loss that had been previously recognized in OCI is recognized within the Statement of Comprehensive Loss.

- Financial assets classified as held-to-maturity and loans and receivables are measured subsequent to initial recognition at amortized cost using the effective interest method.

- Financial liabilities, other than financial liabilities classified as fair value through profit and loss, are measured in subsequent periods at amortized cost 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. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a short period, to the net carrying amount on initial recognition.

The Company has classified its financial instruments as follows:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Fair Value through Profit and Loss	Fair Value
Short-term investments	Fair Value through Profit and Loss	Fair Value

Amounts receivable	Loans and receivables	Amortized cost
Marketable securities	Available-for-Sale	Fair Value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

The Company's cash and cash equivalents consists of balances with banks and highly liquid short-term investments that are readily convertible to known amounts of cash with original maturities of three months or less when acquired. Short-term investments are investments with original maturities of greater than three months when acquired (see Note 5).

The Company had no held-to-maturity financial assets at December 31, 2011, December 31, 2010, or at January 1, 2010.

The market values of investments are determined based on the closing prices reported on recognized securities exchanges and over-the-counter markets. Such individual market values do not necessarily represent the realizable value of the total holding of any security, which may be more or less than that indicated by market quotations.

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MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2011
In Canadian Dollars

The fair values of the Company's amounts receivable, advances and accounts payable and accrued liabilities approximate their carrying values because of the immediate or short-term to maturity of these financial instruments.

Derivative financial liabilities

Derivative instruments, including embedded derivatives, are recorded at their fair value on the date the derivative contract is entered into. They are subsequently remeasured at their fair value at each statement of financial position date, and the changes in the fair value are recognized in profit or loss. Fair values for derivative instruments are determined using valuation techniques, including assumptions based on market conditions existing at the date of the consolidated statement of financial position.

Warrants denominated or exerciseable in a foreign currency different from the functional currency of the Company meet the definition of a derivative financial liability and are fair valued at each statement of financial position date using the Black-Scholes option pricing model, with changes in the fair value recognized in the consolidated statement of comprehensive loss.

(xi) Provisions

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate not adjusted for credit risk that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as accretion expense. The Company does not have any provisions as of December 31, 2011 other than the provision for decommissioning and restoration associated with the Gahcho Kué Joint Venture.

The Company records as decommissioning and restoration liability the present value of estimated costs of legal and constructive obligations required to restore locations in the period in which the obligation is incurred. The nature of these decommissioning and restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground and/or environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized if the Company has a related asset on its balance sheet, or expensed as part of exploration and evaluation expenditures if no asset exists. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the income statement as a finance cost called "interest expense on decommissioning and restoration liability". Additional disturbances or changes in rehabilitation costs will be recognized as additional capitalized costs (or exploration and evaluation expense depending on whether there was a related asset when the liability was initially recognized) and additional decommissioning and restoration liability when they occur. If it is determined that the expected costs for decommissioning and restoration are reduced, the change in the present value of the reduction is recorded as a reduction in the capitalized costs (or a charge against exploration and evaluation expense), and a reduction of the decommissioning and restoration liability. For closed sites, changes to estimated costs are recognized immediately in the income statement.

The Company has recognized $6,178,004 of decommissioning and restoration liability at December 31, 2011 ($5,704,096 at December 31, 2010, and $8,817,088 at January 1, 2010).

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2011
In Canadian Dollars

(xii) Loss per share

Basic earnings per share is calculated by dividing earnings attributable to common shares divided by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding stock options and warrants. The denominator is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all stock options and warrants with exercise prices below the average market price for the year.

Shares issuable on exercise of stock options totaling 964,000 on December 31, 2011 (stock options and warrants totaling 3,743,501 on December 31, 2010, and stock options and warrants totaling 4,451,635 on January 1, 2010) were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

(xiii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

The Company anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* (effective from July 2, 2011)

The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for:

- financial assets that are not derecognized in their entirety; and
- financial assets that are derecognized in their entirety but for which the entity retains continuing involvement

The adoption of this amendment did not have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liability in IFRS 9 – fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

IFRS 11 *Joint Arrangements*

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact that IFRS 11 will have on its consolidated financial statements.

IFRS 12 *Disclosure of Interest in Other Entities*

IFRS 12, *Disclosure of Interest in Other Entities* was issued by the IASB in May 2011. The new standard includes disclosure requirements about subsidiaries, joint ventures and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company does not expect the adoption to have any impact on its financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS statements. The new standard clarifies that 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. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

On October 20, 2011, the IASB issued a new interpretation, IFRIC 20, to address accounting issues regarding waste removal costs incurred in surface mining activities during the production phase of a mine, referred to as production stripping costs. The new interpretation addresses the classification and measurement of production stripping costs as either inventory or as a tangible or intangible non-current ‘stripping activity asset’. The standard also provides guidance for the depreciation or amortization and impairment of such assets. IFRIC 20 is effective for reporting years beginning on or after January 1, 2013, although earlier application is permitted. The Company is assessing the impact, if any, the adoption of this standard may have on its consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant areas requiring the use of management estimates relate to recoverability of the interest in Gahcho Kué Joint Venture, asset valuations, reserve and resource estimation, decommissioning and restoration provisions, and deferred taxes, and the assumptions used in determining the fair value of stock options and warrants, as applicable. Actual results could materially differ from these estimates.

Particularly, the Company reviews its interest in the Gahcho Kué Project for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. IFRS requires the Company to make certain judgments, assumptions, and estimates in identifying such events and changes in circumstances, and in assessing their impact on the valuations of the affected assets. Impairments are recognized when the carrying values exceed management's estimate of the net recoverable amounts associated with the affected assets. The values shown on the balance sheet for the Company's interest in the Gahcho Kué Project represent the Company's assumption that the amounts are recoverable. Owing to the numerous variables associated with the Company's judgments and assumptions, the precision and accuracy of estimates of recoverable amount is subject to significant uncertainties, and may change significantly as additional information becomes known. The Company's assessment is that as at December 31, 2011, there has been no impairment in the carrying value of its Interest in the Gahcho Kué Joint Venture.

The Company has recorded its proportional interest in the asset retirement obligation of the Gahcho Kué Project. The asset retirement obligation calculation, and the accretion recorded are based on estimates of future cash flows, discount rates, and assumptions regarding timing. The estimates are subject to change and the actual costs for the asset retirement obligation may change significantly.

The Company expenses all stock-based payments using the fair value method. The Company also values warrants when issued at fair value. Under the fair value method and option and warrant pricing model used to determine fair value, estimates are made as to the volatility of the Company's shares and the expected life of the options and warrants. Such estimates affect the fair value determined by the option and warrant pricing model.

5. Financial instruments

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses) for each class of financial asset, and financial liability are disclosed in Note 3 (x).

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

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

The Company’s financial assets as at December 31, 2011, December 31, 2010 and January 1, 2010 measured at fair value are cash, short term investments, and marketable securities which is classified as Level 1.

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The quoted market value of marketable securities at December 31, 2011, December 31, 2010 and January 1, 2010 was $17,678, $23,062, and $13,431, respectively. The original cost of these marketable securities at December 31, 2011, December 31, 2010 and January 1, 2010 was $4,632 for all periods.

The short-term investments at December 31, 2011, December 31, 2010 and January 1, 2010 are cashable guaranteed investment certificates ("GICs") held with a major Canadian financial institution. The short-term investments at December 31, 2011 were purchased with original maturities between March 2012 and July 2012. There is no restriction on the use of the short-term investments.

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

	Balance as at December 31, 2011	December 31, 2010	January 1, 2010
Financial assets			
Fair Value Through Profit or Loss			
Cash and cash equivalents	$21,546	$23,778,053	$208,559
Short-term investments	17,819,183	9,777,089	9,733,718
Loans and receivables			
Amounts receivable	350,559	499,192	269,979
Available-for-Sale			
Marketable securities	17,678	23,062	13,431
Financial liabilities			
Financial liabilities measured at amortized cost Accounts payable and accrued liabilities	(3,246,132)	(4,760,390)	(1,949,489)

The Company’s interest income on short-term investment carried at fair value is presented on the Statement of Comprehensive Loss in the Interest income line.

The Company had no transactions with marketable securities classified as available-for-sale during the year ended December 31, 2011 and December 31, 2010.

Financial Instruments Risks

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk, foreign currency risk and interest rate risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company’s maximum exposure to credit risk for its amounts receivable is summarized as follows:

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	December 31, 2011	December 31, 2010	January 1, 2010
0-30 days	$ 133,821	$ 131,903	$ 269,979
30 to 90 days	49,766	126,048	-
More than 90 days	166,972	241,241	-
Total	$ 350,559	$ 499,192	$ 269,979

On December 31, 2011, and December 31, 2010, the Company does not have any allowance for doubtful accounts.

All of the Company's cash and cash equivalents and short-term investments are held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. The short-term investments are cashable in whole or in part, generally with interest, at any time to maturity. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to amounts receivable. The Company considers the risk of loss for its amounts receivable to be remote and significantly mitigated due to the financial strength of the party from whom the receivables are due - the Canadian government for harmonized sales tax ("HST") refunds receivable in the amount of approximately $350,559 (December 31, 2010 - $498,316; January 1, 2010 - $172,902).

The Company's current policy is to invest excess cash in GICs. It periodically monitors the investments it makes and is satisfied with the credit ratings of its bank.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its operating requirements. The Company coordinates this planning and budgeting process with its financing activities through its capital management process. The Company's financial liabilities comprise its accounts payable and accrued liabilities, all of which are due within the next 12 month period. Other than minimal office space rental commitments, there are no other operating lease commitments.

Market risk

The Company's marketable securities are classified as available-for-sale, and are subject to changes in the market prices. They are recorded at fair value in the Company's financial statements, based on the closing market value at the end of the period for each security included. The original cost of the marketable securities is $4,632. The Company's exposure to market risk is not considered to be material.

Foreign currency sensitivity

The Company is exposed to foreign currency risk at the balance sheet date through its U.S. denominated accounts payable and cash. A 10% depreciation or appreciation of the U.S. dollar against the Canadian dollar would result in an approximate $6,542 decrease or increase, respectively, in both net and comprehensive loss. The Company currently has only limited exposure to fluctuations in exchange rates between the Canadian and U.S. dollar. Accordingly, the Company has not employed any currency hedging programs during the current period.

Interest rate sensitivity

The Company has no significant exposure at December 31, 2011, or December 31, 2010 to interest rate risk through its financial instruments. The short-term investments are at fixed rates of interest that do not fluctuate during the remaining term. The Company has no interest-bearing debt.

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6. Property and Equipment

The Company's property and equipment for the periods ended December 31, 2011, December 31, 2010, and January 1, 2010 are as follows:

December 31, 2011	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$1,206	$ 268	$ 938
Production equipment	7,473	1,121	6,352
Vehicles	58,155	22,220	35,935
	$66,834	$ 23,609	$ 43,225

December 31, 2010	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$-	$ -	$ -
Production equipment	7,473	-	7,473
Vehicles	44,100	8,820	35,280
	$51,573	$ 8,820	$ 42,753

January 1, 2010	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$-	$ -	$ -
Production equipment	-	-	-
Vehicles	44,100	-	44,100
	$44,100	$ -	$ 44,100

7. INTEREST IN GAHCHO KUE JOINT VENTURE

The Company holds a 49% interest in the Gahcho Kué Joint Venture located in the Northwest Territories, Canada, and De Beers Canada holds the remaining 51% interest. The joint venture between the Company and De Beers Canada is governed by an agreement entered into on July 3, 2009 (the "2009 Agreement"). The Company considers that the Gahcho Kué Joint Venture is a related party under IAS 24 – *Related Parties*.

The 2009 Agreement's provision for consensus decision-making for material strategic and operating decisions provides the Company with joint control for the Gahcho Kué Project with De Beers Canada, and the Company accounts for the Project as a joint venture in accordance with IAS 31 – *Interests in Joint Ventures*. The Company has determined its proportionate share (49%) of the assets, liabilities, revenues and expenses of the joint venture, and recorded them in its consolidated financial statements effective July 4, 2009.

Under a previous agreement (the "2002 Agreement") in effect until July 3, 2009, De Beers Canada carried all costs incurred by the Project, and De Beers Canada had no recourse to the Company for repayment of funds until, and unless, the Project was built, in production, and generating net cash flows.

On July 3, 2009, the Company entered the 2009 Agreement with De Beers Canada (jointly, the "Participants") under which:

(a) The Participants' continuing interests in the Gahcho Kué Project will be Mountain Province 49% and De Beers Canada 51%, with the Company's interest no longer subject to the dilution provisions in the 2002 Agreement except for normal dilution provisions which are applicable to both Participants;

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(b) Each Participant will market their own proportionate share of diamond production in accordance with their participating interest;
(c) Each Participant will contribute their proportionate share to the future project development costs;
(d) Material strategic and operating decisions will be made by consensus of the Participants as long as each Participant has a participating interest of 40% or more;
(e) The Participants have agreed that the sunk historic costs to the period ending on December 31, 2008 will be reduced and limited to $120,000,000;
(f) The Company will repay De Beers Canada $59 million (representing 49% of an agreed sum of $120,000,000) in settlement of the Company's share of the agreed historic sunk costs on the following schedule:

- $200,000 on execution of the 2009 Agreement (the Company's contribution to the 2009 Joint Venture expenses to date of execution of the 2009 Agreement – paid; expensed and included in the opening deficit at January 1, 2010);
- Up to $5.1 million in respect of De Beers Canada's share of the costs of the feasibility study; ($4,366,362 to December 31, 2011, included in "Interest in Gahcho Kué Joint Venture");
- $10 million upon the completion of a feasibility study with at least a 15% IRR and approval of the necessary development work for a mine (as defined in the 2009 Agreement) (paid March 15, 2011, included in "Interest in Gahcho Kué Joint Venture");
- $10 million following the issuance of the construction and operating permits;
- $10 million following the commencement of commercial production; and
- The balance of approximately $24.4 million within 18 months following commencement of commercial production.

Mountain Province has agreed that the marketing rights provided to the Company in the 2009 Agreement will be diluted if the Company defaults on certain of the repayments described above.

Since these payments are contingent on certain events occurring, and/or work being completed, they will be recorded as the payments become due or are made. As these contingent payments are made, they are being capitalized to Interest in Gahcho Kué Joint Venture as "acquired exploration and evaluation".

During the Company's fiscal year ended March 31, 2008, the Company acquired Camphor Ventures Inc., whose principal asset was its 4.9% interest in the Gahcho Kué Joint Venture, which resulted in the Company's 49% interest in the Gahcho Kué Joint Venture. The Company has recorded the cost of this purchase as "Interest in Gahcho Kué Joint Venture" on its balance sheet at the net purchase price of $26,268,792.

The continuity of the Interest in Gahcho Kué Joint Venture is as follows:

Balance, January 1, 2010	$35,730,073
Amounts capitalized for sunk cost repayments in fiscal year	2,837,596
Change in proportionate share of working capital	1,022,371
Change in expected decommissioning and restoration liability	(2,608,255)
Balance, December 31, 2010	$36,981,785
Change in proportionate share of working capital	572,375
Change in expected decommissioning and restoration liability	410,593
Amounts capitalized for sunk cost repayments in the year	10,237,929
Balance, December 31, 2011	$48,202,682

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Summarized below are the results of operations, cash flows and financial position relating to the Company's proportional interest (49%) in the accounts of the Gahcho Kué joint venture for the year months ended December 31, 2011 and 2010:

	Year Ended December 31, 2011	Year Ended December 31, 2010
Results of Operations		
Revenue	$ -	$ -
Expenses	(8,540,441)	(8,122,822)
Proportionate share of net loss	$ (8,540,441)	$ (8,122,822)
Cash Flows		
Operating activities	$ (7,889,959)	$ (6,975,189)
Financing activities	7,905,220	6,982,662
Investing activities	(15,261)	(7,473)
Proportionate share of change in cash and cash equivalents	$ -	$ -

	As at December 31, 2011	As at December 31, 2010
Financial Position		
Current assets	$ 113,533	$ 136,442
Non-current assets	5,958,567	5,547,501
Current liabilities	(1,756,902)	(1,207,433)
Non-current liabilities	(6,178,004)	(5,704,096)
Proportionate share of net liabilities	$ (1,862,806)	$ (1,227,586)

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8. DECOMMISSIONING AND RESTORATION LIABILITY

The Gahcho Kué Joint Venture decommissioning and restoration liability was calculated using the following assumptions as at December 31, 2011:

	Year ended December 31, 2011		Year ended December 31, 2010	
Expected undiscounted cash flows	$13,438,206		$13,616,550	
Inflation	0	%	0	%
Discount rate	0.45	%	1.11	%
Periods	between 2014 and 2028		between 2013 and 2027	
With probabilities between	10% and 70%		10% and 70%	

The balance of the decommissioning and restoration liability at December 31, 2011 is follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Balance, beginning of year	$ 5,704,096	$ 8,187,088
Change in estimate of discounted cash flows for the year	410,593	(2,608,255)
Accretion recorded during the year	63,315	125,263
Balance, end of year	$ 6,178,004	$ 5,704,096

9. SHAREHOLDERS’ EQUITY

i. Authorized share capital

Unlimited common shares, without par value. Each common share entitles the holder to one shareholder vote.

There is no other class of shares in the Company.

ii. Share capital

The number of shares issued and fully paid as at December 31, 2011 is 80,345,558. There are no shares issued but not fully paid.

On May 17, 2010, the Company completed a non-brokered private placement of 5,476,177 common shares at a price of $2.10 per common share, to raise gross proceeds of $11,499,972, and on November 18, 2010, the Company completed a private placement financing of 4,600,000 common shares at $5.00 per share for gross proceeds of $23,000,000. Net proceeds totaled $33,048,756.

iii. Stock Options and Share-based Payments Reserve

The Company, through its Board of Directors and shareholders, adopted a stock option plan (the “Plan”) which, among other things, allows for the maximum number of shares that may be reserved for issuance under the Plan to be 10% of the Company’s issued and outstanding shares at the time of the grant. The Board of Directors has the authority and discretion to grant stock option awards within the limits identified in the Plan, which includes provisions limiting the issuance of options to insiders and significant shareholders to maximums identified in the Plan.

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The aggregate maximum number of shares pursuant to options granted under the Plan will not exceed 6,309,774 shares, and as at December 31, 2011, there were 5,345,774 shares available to be issued under the Plan. All stock options are settled by issuance of common shares.

The following table summarizes information about the stock options outstanding and exercisable:

	December 31, 2011		December 31, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	1,084,635	$ 1.69	1,234,635	$ 1.75
Granted during the year	150,000	6.13	-	-
Exercised during the year	(270,635)	2.46	(150,000)	2.17
Balance at end of year	964,000	$ 2.16	1,084,635	$ 1.69
Options exercisable at the end of the year	964,000		1,084,635	

The fair value of the 150,000 stock options granted in the year has been estimated on the date of the grant using the Black-Scholes option pricing model. The assumptions are presented below. Expected volatility is calculated by reference to the weekly closing share price for a period that reflects the expected life of the options (five years). There were no stock options granted in the year ended December 31, 2010.

Weighted average share price	$3.25
Exercise price	$6.13
Expected volatility	60.22 %
Expected option life	5 years
Expected forfeiture	none
Expected dividend yield	0 %
Risk-free interest rate	2.46 %

During the year ended December 31, 2011, 270,635 stock options were exercised for gross proceeds of $665,000 (December 31, 2010 – 150,000 stock options were exercised for gross proceeds of $326,000). Subsequent to December 31, 2011, 300,000 stock options were exercised for gross proceeds of $516,000.

The following table summarizes options outstanding at the end of periods presented:

	December 31, 2011		December 31, 2010	
	Range of exercise prices	Weighted average remaining contractual life	Range of exercise prices	Weighted average remaining contractual life
Options outstanding at the end of the period:	$1.26 - $6.13	2.47 years	$1.26 - $4.50	2.85 years

The following tables reflect the Black-Scholes values (share-based payments reserve amounts), the number of stock options outstanding, the weighted average of options outstanding, and the exercise price of stock options outstanding at December 31, 2011, December 31, 2010, and as at January 1, 2010.

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At December 31, 2011

Expiry Date	Black-Scholes Value	Number of Options	Weighted Average (Years)	Exercise Price
November 23, 2013	$ 327,932	514,000	1.01 years	$ 1.26
August 25, 2014	268,405	300,000	0.83 years	1.72
January 9, 2016	487,085	150,000	0.63 years	6.13
	$ 1,083,422	964,000	2.47 years	

At December 31, 2010

Expiry Date	Black-Scholes Value	Number of Options	Weighted Average (Years)	Exercise Price
January 30, 2011	321,100	100,000	0.01 years	$ 4.50
November 23, 2013	436,797	684,635	1.83 years	$ 1.26
August 25, 2014	268,405	300,000	1.01 years	$ 1.72
	$ 1,026,302	1,084,635	2.85 years	

At January 1, 2010

Expiry Date	Black-Scholes Value	Number of Options	Weighted Average (Years)	Exercise Price
November 1, 2010	$ 180,100	100,000	0.07 years	$ 2.63
January 30, 2011	321,100	100,000	0.09 years	4.50
November 23, 2013	468,697	734,635	2.32 years	1.26
August 25, 2014	268,405	300,000	1.13 years	1.72
	$ 1,238,302	1,234,635	3.61 years	

The share-based payments recognized as an expense for each year are:

	Year ended December 31, 2011	Year ended December 31, 2010
Expense recognized in the period for share-based payments	$ 487,085	-

The share-based payments amount of $487,085 for the year ended December 31, 2011 is recorded in Consulting fees.

Subsequent to the year-end, on March 8, 2012, 200,000 stock options were granted. These stock options vest immediately, and have an expiry date of March 7, 2017 and an exercise price of $4.84. The fair value of the 200,000 stock options has been estimated on the date of the grant using the Black-Scholes option pricing model and totals $505,000. The assumptions are presented below. Expected volatility is calculated by reference to the weekly closing price for a period that reflects the five-year expected life of the options.

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Exercise price	$ 4.84	
Expected volatility	60.8	%
Expected option life	5 years	
Expected forfeiture	none	
Expected dividend yield	0	%
Risk-free interest rate	1.5	%

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iv. Warrants

The following is a summary of warrants outstanding at December 31, 2010, and January 1, 2010. There are no warrants outstanding at December 31, 2011.

Date of Issue	Number of Warrants	Exercise Price		Expiry Date
August 4, 2009	1,054,916	$2.00	or $1.73 US	February 4, 2011
December 8, 2009	1,603,950	$3.20		June 8, 2011
Warrants outstanding December 31, 2010	2,658,866			
August 4, 2009	1,500,000	$2.00	or $1.73 US	February 4, 2011
December 8, 2009	1,717,000	$3.20		June 8, 2011
Warrants outstanding January 1, 2010	3,217,000			

The warrants issued August 4, 2009 were able to be exercised for either $2.00 Canadian or $1.73 US. As they can be exercised in a foreign currency different than the functional currency of the Company, they meet the definition of a financial liability and accordingly are presented as such on the Company's statement of financial position. They are revalued at fair value at each period using the Black-Scholes option pricing model, and with the assumptions listed below for December 31, 2010 and January 1, 2010:

Black-Scholes assumptions	At December 31, 2010		At January 1, 2010	
Exercise price	C$2.00 or US$1.73		C$2.00 or US$1.73	
Expected volatility	49.22	%	64.78	%
Expected warrant life	1 month		13 months	
Expected dividend yield	$0		$0	
Risk-free interest rate	1.07	%	0.75	%
Fair value of warrants	$3.933		$0.729	

In the first half of the year, 2,658,866 warrants were exercised before expiry for gross proceeds of $7,242,471 (December 31, 2010 – 558,134 for gross proceeds of $1,251,928).

v. Shareholder Rights Plan

On September 7, 2010, the Board of Directors of the Company approved an amended Shareholder Rights Plan (the "Rights Plan"), which was ratified by the shareholders at the Annual General Meeting on November 18, 2010. The Rights Plan is intended to provide all shareholders of the Company with adequate time to consider value enhancing alternatives to a take-over bid and to provide adequate time to properly assess a take-over bid without undue pressure. The Rights Plan is also intended to ensure that the shareholders of the Company are provided equal treatment under a takeover bid.

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10. INCOME TAXES

Rate Reconciliation

The provision for income tax differs from the amount that would have resulted by applying the combined Canadian Federal and Ontario statutory income tax rates of approximately 26.5% (2010 – 26.5%):

	December 31, 2011	December 31, 2010
Loss before income taxes	$ 11,538,935 26.5 %	$ 14,534,727 26.5 %
Tax recovery calculated using statutory rates	3,057,818	3,851,703
Expenses not subject to taxation or (expenses not deductible for taxation)	69,491	(1,272,930)
Other	(33,226)	(39,080)
Tax benefits not recognized	(3,094,083)	(2,539,693)
Income tax expenses (recovery)	$ -	$ -

Unrecognized deferred tax assets

Deferred income tax assets have not been recognized in respect of the following items:

	December 31, 2011	December 31, 2010
Gahcho Kué Joint Venture	$ 12,271,065	$ 9,362,995
Loss carryforwards	3,363,180	3,061,541
Share issuance cost	303,230	418,856
	$ 15,937,475	$ 12,843,392

Income tax attributes

As at December 31, 2011, the Company had the following approximate income tax attributes to carry forward:

	Amounts	Expiry Date
Non-capital losses	$12,691,200	2026-2031
Tax basis of mineral properties	$41,981,700	Indefinite
Tax basis of mineral properties, successored	$29,151,900	* see below

11. Leases

The total future minimum lease payments for office space under non-cancellable operating leases are as follows:

	2012	2013	2014	2015	Thereafter	Total
Future minimum lease payments	$128,696	$140,396	$140,396	$140,396	$152,096	$701,980

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12. RELATED PARTIES

The Company's related parties include its subsidiaries, the Gahcho Kué Joint Venture, key management and their close family members, and the Company's directors. None of the transactions with related parties incorporate special terms and conditions, and no guarantees were given or received. Outstanding balances are settled in cash.

The Company had the following transactions and balances with key management personnel. There were no transactions with the Gahcho Kué Joint Venture.

	December 31, 2011	December 31, 2010
The total of the transactions:		
Remuneration	$ 1,450,068	$ 716,978
The amount of outstanding balances:		
Payable	313,000	186,619

The remuneration of directors and other members of key management personnel for the year ended December 31, 2011 and the year ended December 31, 2010 were as follows:

	December 31, 2011	December 31, 2010
Salary, bonus and other short-term employee benefits	$ 962,983	$ 716,978
Share-based payments	487,085	-
	$ 1,450,068	$ 716,978

In accordance with IAS 24 *Related Parties*, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

13. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of share capital, contributed surplus, options and warrants. The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's main property, Gahcho Kué, is in the development and permitting stage, and as such the Company is dependent on external equity financing to fund its activities. In order to carry out the planned management of our properties and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

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The Company's capital for the reporting periods is summarized as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Share capital	$146,911,995	$133,344,866	$97,312,714
Value assigned to warrants	-	969,942	1,051,564
Share-based payments reserve	1,083,422	1,026,302	1,238,302
Deficit	(90,876,085)	(79,337,150)	(64,802,423)
	$57,119,332	$56,003,960	$34,800,157

There were no changes in the Company's approach to capital management during the year ended December 31, 2011. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

14. SEGMENTED REPORTING

The Company has determined that it has only one operating segment.

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15. TRANSITION TO IFRS

The Company's audited consolidated annual financial statements for the year ended December 31, 2011 are the first annual financial statements that are prepared in accordance with IFRS, and these consolidated financial statements were prepared as described in Note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which, for the Company, is December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exemptions for first time IFRS adopters.

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and elections applied in the Company's conversion from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS.

Share-based payments

IFRS 2, *Share-based Payments*, ("IFRS 2"), encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company has taken the exemption provided under IFRS 1 and is not applying IFRS 2 to any options fully vested at the Transition Date.

Decommission and restoration liability exemption

The Company has included on its balance sheet a decommissioning and restoration liability as a result of proportionately consolidating the Gahcho Kué Joint Venture effective July 4, 2009. Under IFRS 1, a first-time adopter need not comply with specific requirements for changes in liabilities that occurred before the date of transition to IFRS as identified under IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The Company has taken the exemption, and as a result, it has measured the liability as at the date of transition to IFRSs in

accordance with IAS 37, *Provisions, Contingent Assets and Contingent Liabilities*, and estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using the Company's best estimate of the historical risk-adjusted discount rate that would have been applied for that liability over the intervening period.

Property and Equipment

The Company has applied IAS 16, *Property Plant and Equipment* to all fixed assets with retrospective application, and carries all fixed assets at historic cost. The Company has elected not to use fair value as the deemed cost at the Transition Date.

Financial instruments

Under IFRS 1, an optional exemption exists relating to designation of previously recognized financial instruments, which allows financial instruments to be redesignated at the date of transition as either available-for-sale, or as at fair value through profit and loss ("FVTPL"). The Company has taken the exemption but the redesignation has no impact because the Company will retain its applicable marketable securities as "available-for-sale" at the Transition Date.

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Assets and liabilities in separate and consolidated financial statements

The Company's subsidiaries have adopted IFRS at the same time as the parent. The Gahcho Kué Joint Venture has reported under IFRS from inception. The Company's consolidated financial statements measure its proportionate share of the assets and the liabilities of the Gahcho Kué Joint Venture at the same carrying values as in the financial statements of the Gahcho Kué Joint Venture.

Estimates

Hindsight cannot be used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income or loss and cash flows at certain periods. The following paragraphs explain the significant differences between Canadian GAAP and IFRS. These differences result in the adjustments in the tables below:

Reconciliation of equity

Reconciliation of Equity	Note	December 31, 2010	January 1, 2010
Shareholders' Equity under Canadian GAAP:		$105,164,029	$71,516,301
Exploration and evaluation costs expensed	1	(42,740,884)	(34,775,176)
Reversal of future income tax recoveries	2	(1,453,393)	(954,648)
Reversal of tax benefit of financing costs	2	(578,128)	-
Adjustment of decommissioning and restoration liability	3	388,818	115,979
Depreciation expensed	4	(8,820)	-
Reversal of warrants accounted for as equity	6	-	(819,000)
Expense to fair value warrants exercisable in a foreign currency	6	(4,749,232)	(274,500)
Total Equity under IFRS		$56,022,390	$34,808,956

Reconciliation of comprehensive loss

Reconciliation of comprehensive loss	Note	For the year ended December 31, 2010
Comprehensive loss under Canadian GAAP		$ (1,557,084)
Exploration and evaluation costs expensed	1	(7,965,708)
Reversal of future income tax recoveries	2	(498,745)
Adjustment of decommissioning and restoration liability	3	272,839
Depreciation expensed	4	(8,820)
Loss on revaluation of warrants exerciseable in foreign currency	6	(4,767,578)
Comprehensive loss under IFRS		$ (14,525,096)

Reconciliation of cash flows

Reconciliation of cash flows from operating activities	Note	For the year ended December 31, 2010
Cash used in operating activities, Canadian GAAP		$ (988,249)
Exploration and evaluation costs expensed	1	(7,965,708)
Classification of interest income as investing activity	7	(122,590)
Elimination of exploration and evaluation amounts included in working capital	1	1,807,578
Cash used in operating activities, IFRS		$ (7,268,969)

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Reconciliation of cash flows from investing activities	Note	For the year ended December 31, 2010
Cash used in investing activities, Canadian GAAP		$ (10,068,941)
Exploration and evaluation costs expensed	1	7,965,708
Classification of interest income as investing activity	7	122,590
Elimination of exploration and evaluation amounts included in working capital	1	(1,807,578)
Cash used in investing activities, IFRS		$ (3,788,221)

Changes in accounting policies

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

1. **Exploration and evaluation**

Under IFRS, the Company's policy is to expense exploration and evaluation costs as incurred until such time as the Company makes a formal decision to develop a mine to extract the mineral reserves. As well, the Company capitalizes acquired evaluation and exploration costs. It also capitalizes the historic agreed sunk cost repayments as they become due (see Note 7).

Once the decision to develop the mine is made, and subject to impairment analysis, capitalized acquisition costs included in the Gahcho Kué Joint Venture are transferred to capitalized costs within property, plant and equipment, or intangible assets, as appropriate. The decision to develop a mine may be impacted by management's assessment of legal, environmental, social and governmental factors.

Under Canadian GAAP, the Company's exploration and evaluation costs incurred prior to establishing proven and probable reserves for an exploration property or to expand existing properties were capitalized as exploration and evaluation assets. Under Canadian GAAP, acquired exploration and evaluation assets capitalized included a gross-up for future income taxes payable.

On transition to IFRS, in the opening balance sheet, the change in accounting policy resulted in a reduction of assets (excluding reversal of the future income tax liability inclusion of $6,131,529), and an increase in the opening deficit of $34,775,176.

Cash used in operating activities is increased as a result of expensing exploration and evaluation under IFRS, while cash used in investing activities is decreased by the same amount since exploration and evaluation was capitalized under Canadian GAAP and considered an investing activity.

2. Income Taxes

Under IFRS, there is no gross-up on acquired exploration and evaluation assets for their associated future income tax liability. On transition, the change in accounting policy resulted in a reduction of assets of $6,131,529 (as above), and a corresponding reduction in future income tax liability of $6,131,529. Future income tax recoveries recorded prior to the Transition Date in the amount of $954,648 were reversed from their impacts on the Company's future income tax liability under Canadian GAAP, and their resulting increase in the Company's deficit.

There is no impact on cash flows as a result of this adjustment since future income tax recoveries and liabilities under Canadian GAAP or IFRS are not cash-related.

3. Changes in existing decommissioning and restoration liability

The decommissioning and restoration liability was calculated as at the Transition Date, and revalued as at December 31, 2010 for changes in undiscounted, uninflated cash flows, and other assumptions.

Under IAS 37, the estimated cash flows related to the decommissioning and restoration liability have been risk adjusted, therefore, the provision has been discounted at a risk-free rate of 1.53% based on Bank of Canada real return bond rates at the Transition Date.

This resulted in a $3,083,213 increase to the decommissioning liability with a corresponding increase to the Company's Interest in Gahcho Kué Joint Venture as at the Transition Date.

There is no impact on cash flows as a result of this adjustment since the decommissioning and restoration liability, and the interest expense recorded relating to the decommissioning and restoration liability are not cash-related under either Canadian GAAP or IFRS.

4. Depreciation expense

Under Canadian GAAP, the depreciation associated with the Company's proportionate share of fixed assets was capitalized to the Company's Interest in Gahcho Kué Joint Venture. Under IFRS, the depreciation is expensed.

There is no impact on the Company's deficit at the Transition Date since the related fixed assets were not yet depreciated. For the year ended December 31, 2010, there was a resulting increase in the deficit of $8,820.

There is no impact on cash flows as a result of this adjustment since depreciation is not cash-related under Canadian GAAP or IFRS.

5. Reversal of tax benefit of financing costs

Under Canadian GAAP, a tax benefit associated with costs of financings was recorded. Under IFRS, with no deferred tax asset recorded in the Company, the tax benefit is reversed. This resulted in a decrease to Share Capital in the year ended December 31, 2010 of $578,128. There is no impact at the Transition Date.

There is no impact on cash flows as a result of this adjustment since tax benefits under Canadian GAAP or IFRS are not cash-related.

6. Reclassification and revaluation of warrants exerciseable in foreign currency

Under Canadian GAAP, the fair value of warrants issued is recorded under equity. On transition, the Company had warrants issued on August 4, 2009 which were able to be exercised for either $2.00 Canadian or $1.73 US. As they can be exercised in a foreign currency different than the functional currency of the Company, they meet the definition of a financial liability under IFRS, and accordingly are presented as such on the Company's statement of financial position effective with the Transition Date. They have been revalued at fair value at each period using the Black-Scholes option pricing model, as described in Note 9(iv). This resulted in a decrease in equity at the Transition Date of $1,093,500, consisting of $819,000 removed from equity and recorded as a liability, and $274,500 being the revaluation of the fair value from the time of grant (August 4, 2009) to January 1, 2009.

There is no impact on cash flows as a result of this adjustment since the changes are within the cash provided by operations.

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7. Presentation Reclassifications

Under IFRS, the Company has included interest expense relating to its decommissioning and restoration liability as other expenses. As well, under IFRS, for cash flow purposes, the Company considers interest income received on investments of its excess cash to be investing activities for cash flow purposes. Under Canadian GAAP, the interest income received was recorded as an operating activity.

Reconciliations of Statements of Comprehensive Loss from Canadian GAAP to IFRS

The following is a reconciliation of consolidated Statement of Comprehensive Loss as of December 31, 2010 from Canadian GAAP to IFRS:

	Canadian GAAP Year ended December 31, 2010	IFRS Adjustments	IFRS Year ended December 31, 2010
Expenses:			
Consulting fees	(721,987)		(721,987)
Depreciation	-	(8,820)	(8,820)
Exploration and evaluation expenses	-	(7,965,708)	(7,965,708)
Gahcho Kué Project management fee	(162,613)		(162,613)
Office and administration	(200,274)		(200,274)
Professional fees	(340,051)		(340,051)
Promotion and investor relations	(78,499)		(78,499)
Salary and benefits	(45,162)		(45,162)
Transfer agent and regulatory fees	(124,255)		(124,255)
Travel	(117,107)		(117,107)
Net loss for the year from operations	(1,789,948)	(7,974,528)	(9,764,476)
Other expenses:			
Accretion expense on decommissioning and restoration liability	(398,102)	272,839	(125,263)
Loss on revaluation of warrants exerciseable in a foreign currency	-	(4,767,578)	(4,767,578)
Other income:			
Interest income	122,590		122,590

Net loss for the year before tax recovery	(2,065,460)	(12,469,267)	(14,534,727)
Future income tax recovery	498,745	(498,745)	-
Net loss for the year after tax	(1,566,715)	(12,968,012)	(14,534,727)
Other Comprehensive Loss			
Change in fair value of available-for-sale marketable securities	9,631		9,631
Comprehensive loss for the year	(1,557,084)	(12,968,012)	(14,525,096)
Basic and diluted loss per share	$ (0.02)		$ (0.21)
Weighted average number of shares outstanding	70,833,448		70,833,448

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Reconciliations of Balance Sheets from Canadian GAAP to IFRS

The following is a reconciliation of the consolidated Balance Sheet as of December 31, 2010:

	Canadian GAAP December 31, 2010	IFRS Adjustments On transition	IFRS Adjustments	IFRS December 31, 2010
ASSETS				
Current assets				
Cash and cash equivalents	$ 23,778,053			$ 23,778,053
Short-term investments	9,777,089			9,777,089
Marketable securities	23,062			23,062
Amounts receivable	499,192			499,192
Advances and prepaid expenses	134,174			134,174
	34,211,570			34,211,570
Property and equipment	42,753			42,753
Gahcho Kué Joint Venture	83,051,319	(37,707,513)	(8,362,021)	36,981,785
Total assets	$ 117,305,642	$(37,707,513)	$(8,362,021)	$ 71,236,108
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$ 4,760,390			$ 4,760,390
Warrants exerciseable in a foreign currency	-	1,093,500	3,655,732	4,749,232
Total current liabilities	4,760,390	1,093,500	3,655,732	9,509,622
Future income tax liabilities	4,100,008	(5,176,881)	1,076,873	-
Decommissioning and restoration liability	3,281,215	3,083,213	(660,332)	5,704,096
Shareholders' equity:				
Share capital	133,054,164		290,702	133,344,866
Value assigned to warrants	1,545,926	(819,000)	243,016	969,942
Share-based payments reserve	1,026,302			1,026,302
Deficit	(30,480,793)	(35,888,345)	(12,968,012)	(79,337,150)

Accumulated other comprehensive income	18,430			18,430
Total shareholders' equity	105,164,029	(36,707,345)	(12,434,294)	56,022,390
Total liabilities and shareholders' equity	$ 117,305,642	$(37,707,513)	$(8,362,021)	$ 71,236,108

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The following is a reconciliation of the consolidated Balance Sheet as of January 1, 2010:

	Canadian GAAP December 31, 2009	IFRS Adjustments	IFRS January 1, 2010
ASSETS			
Current assets			
Cash and cash equivalents	$ 208,559		$ 208,559
Short-term investments	9,733,718		9,733,718
Marketable securities	13,431		13,431
Amounts receivable	269,979		269,979
Advances and prepaid expenses	39,173		39,173
	10,264,860	-	10,264,860
Property and equipment	44,100		44,100
Gahcho Kué Joint Venture	73,437,586	(37,707,513)	35,730,073
Total assets	$ 83,746,546	$ (37,707,513)	$ 46,039,033
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	$ 1,949,489		$ 1,949,489
Warrants exerciseable in a foreign currency	-	1,093,500	1,093,500
Total current liabilities	1,949,489	1,093,500	3,042,989
Future income tax liabilities	5,176,881	(5,176,881)	-
Decommissioning and restoration liability	5,103,875	3,083,213	8,187,088
Shareholders' equity:			
Share capital	97,312,714		97,312,714
Value assigned to warrants	1,870,564	(819,000)	1,051,564
Share-based payments reserve	1,238,302		1,238,302
Deficit	(28,914,078)	(35,888,345)	(64,802,423)
Accumulated other comprehensive income	8,799		8,799
Total shareholders' equity	71,516,301	(36,707,345)	34,808,956
Total liabilities and shareholders' equity	$ 83,746,546	$ (37,707,513)	$ 46,039,033

16. SUBSEQUENT EVENT

In January 2012, the Company announced that the Board of Directors had approved a proposal to spin-out the Company's 100%-controlled Kennady North project into a newly incorporated company, Kennady Diamonds Inc. ("Kennady Diamonds") through a plan of arrangement and subject to regulatory, court and shareholder approvals.

On March 12, 2012, Kennady Diamonds and Mountain Province entered into an arrangement agreement (the "Arrangement") pursuant to which Mountain Province will transfer its interest in the Kennady North Project, including permits, mining claims, rights and title, in the Northwest Territories in Canada, and $3,000,000 of cash, to Kennady Diamonds in exchange for one common share of Kennady Diamonds for every five common shares of Mountain Province outstanding. The Arrangement calls for the share capital of Mountain Province to be reorganized into a new class of shares which will be distributed, with the Kennady Diamonds common shares, to the existing Mountain Province common shareholders.

After completing the Arrangement, Kennady Diamonds will hold Mountain Province's interest in the Kennady North Project and will be capitalized with $3,000,000 of cash.

The various transactions contemplated by the Arrangement have not been completed.

The Arrangement has been approved by the Board of Directors of Mountain Province and is subject to approval by two-thirds of the votes cast by holders of Mountain Province common shares, at a special meeting of Mountain Province shareholders scheduled for April 25, 2012.