

Mountain Province Diamonds Inc.  
Form 20-F  
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR (15d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.....

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32468

MOUNTAIN PROVINCE DIAMONDS INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Ontario

(Jurisdiction of incorporation or organization)

161 Bay Street, Suite 2315, PO Box 216, Toronto, Ontario Canada M5J 2S1

(Address of principal executive offices)

Bruce Ramsden – 416-361-3562

Fax: 416-603-8565; Email: b.ramsden@mountainprovince.com

161 Bay Street, Suite 2315, PO Box 216, Toronto, Ontario Canada M5J 2S1

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
<u>Common Shares no par value</u>	<u>NASDAQ</u>

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None  
(Title of Class)

Indicate the number of outstanding shares of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

159,678,833

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports)

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards  Other   
as issued by the International Accounting  
Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

Not Applicable

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PART II



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GLOSSARY

**2002 Agreement** or **Gahcho Kué Joint Venture Agreement** or means the joint venture agreement entered into by Mountain Province Diamonds Inc., Camphor Ventures Inc., and De Beers Canada Exploration Inc. on October 24, 2002, but which took effect from January 1, 2002, and which was amended and restated on July 3, 2009;

**2009 Agreement** or **Gahcho Kué Amended and Restated Joint Arrangement-Agreement** means the Gahcho Kué Joint Venture Agreement as amended and restated, and entered into by Mountain Province Diamonds Inc., Camphor Ventures Inc., and De Beers Canada Inc. on July 3, 2009;

**2009 Technical Report** means the Technical Report dated as of April 20, 2009 entitled "Gahcho Kué Kimberlite Project NI 43-101 Technical Report, Northwest Territories, Canada" prepared for the Company by AMEC Americas Limited;

**2010 Technical Report, Definitive Feasibility Study, or Feasibility Study** means the "Gahcho Kué Project, Definitive Feasibility Study, National Instrument ("NI") 43-101 Technical Report" dated December 1, 2010 (with Information effective as of October 15, 2010) as prepared and completed by JDS Energy and Mining Inc., and filed by the Company on SEDAR on December 3, 2010;

**2013 Technical Report, Update of the Mineral Resource Estimate for the Tuzo Kimberlite**, means the "Gahcho Kué Project, Update of the Mineral Resource Estimate for the Tuzo Kimberlite, National Instrument ("NI") 43-101 Technical Report" dated July 2, 2013 as prepared and completed by Mineral Services Canada Inc., and filed by the Company on SEDAR on August 14, 2013;

**2014 Technical Report or 2014 Feasibility Study** means the "Gahcho Kué Project, 2014 Feasibility Study Report NI 43-101 Technical Report" dated May 13, 2014 as amended May 27, 2014 (with Information effective as of March 31, 2014) as prepared and completed by JDS Energy and Mining Inc. and Hatch Ltd, and filed by the Company on SEDAR on May 28, 2014;

**2014 Feasibility Study or 2014 Technical Report** means the "Gahcho Kué Project, 2014 Feasibility Study Report NI 43-101 Technical Report" dated May 13, 2014 as amended May 27, 2014 (with information effective as of March 31, 2014) as prepared and completed by JDS Energy and Mining Inc. and Hatch Ltd, and filed by the Company on SEDAR on May 28, 2014;

*Affiliate* has the meaning given to affiliated bodies corporate under the *Business Corporations Act (Ontario)*;

*AK Property* means the claims known as the "AK claims" held by the Gahcho Kué Arrangement;

*AK-CJ Properties* means, collectively, the AK Property and CJ Property;

*AMEC* means AMEC Americas Limited;

*AMEX or NYSE AMEX* means the American Stock Exchange prior to the take-over of the American Stock Exchange LLC by the New York Stock Exchange, and subsequently renamed NYSE Amex, then renamed NYSE MKT;

*CJ Property* means the claims known as the "CJ claims", which have now lapsed, previously held by MPV;

*Arrangement* means the arrangement between the Company and Glenmore which was effected as of June 30, 2000;

**Arrangement Agreement** means the Arrangement Agreement dated as of May 10, 2000, and made between MPV and Glenmore, including the Schedules to that Agreement;

**Business Corporations Act (Ontario)** means the R.S.O. 1990, CHAPTER B.16, as amended from time to time;

**CDNX** means the Canadian Venture Exchange Inc., formerly the Vancouver Stock Exchange, and now known as the TSX Venture Exchange;

**Camphor or Camphor Ventures** means Camphor Ventures Inc.;

**Canadian National Instrument 43-101** means the *National Instrument 43-101 (Standards of Disclosure for Mineral Projects)* adopted by the Canadian Securities Administrators;

**Code** means the United States *Internal Revenue Code of 1986*, as amended;

**Company, MPV or Registrant** means Mountain Province Diamonds Inc.;

**De Beers** means De Beers Consolidated Mines Ltd.;

**De Beers Canada or Monopros** means De Beers Canada Inc., formerly known as De Beers Canada Exploration Inc., and before that as Monopros Limited, a wholly-owned subsidiary of De Beers;

**Desktop Study** means the preliminary technical assessment of the Gahcho Kué resource conducted by De Beers Consolidated Mines Ltd. in 2000 (and updated in 2003, 2005, 2006, and 2008) and the Independent Qualified Persons' review of the Desktop Study provided by AMEC;

**Definitive Feasibility Study, Feasibility Study, or 2010 Technical Report** means the “Gahcho Kué Project, Definitive Feasibility Study, National Instrument (“NI”) 43-101 Technical Report” dated December 1, 2010 (with Information effective as of October 15, 2010) as prepared and completed by JDS Energy and Mining Inc., and filed by the Company on SEDAR on December 3, 2010;

**Exchange Act** means the U.S. *Securities Exchange Act* of 1934, as amended;

**Feasibility Study, Definitive Feasibility Study, or 2010 Technical Report** means the “Gahcho Kué Project, Definitive Feasibility Study, National Instrument (“NI”) 43-101 Technical Report” dated December 1, 2010 (with Information effective as of October 15, 2010) as prepared and completed by JDS Energy and Mining Inc., and filed by the Company on SEDAR on December 3, 2010;

**GAAP** means Canadian generally accepted accounting principles;

**Gahcho Kué Amended and Restated Joint Arrangement-Agreement or 2009. Agreement** means the Gahcho Kué Joint Venture Agreement as amended and restated, and entered into by Mountain Province Diamonds Inc., Camphor Ventures Inc., and De Beers Canada Inc. on July 3, 2009;

**Gahcho Kué Joint Arrangement or Joint Arrangement** means the joint Arrangement between Mountain Province Diamonds Inc., Camphor Ventures Inc., and De Beers Canada, for the Gahcho Kué Project, and as currently governed by the 2009 Agreement;

**Gahcho Kué Joint Arrangement-Agreement** or **2002 Agreement** means the joint arrangement agreement entered into by Mountain Province Diamonds Inc., Camphor Ventures Inc., and De Beers Canada Exploration Inc. on October 24, 2002, but which took effect from January 1, 2002, and which was amended and restated on July 3, 2009;

**Gahcho Kué Project**, located on Kennady Lake, also referred to as the “Kennady Lake Project”, and comprising four mineral leases that are 100% owned by De Beers Canada Inc. (“De Beers Canada”), which holds them on behalf of the Gahcho Kué Joint Arrangement. The participating interest of each of the joint venture parties is governed by the 2009 Agreement;

**Glenmore** means Glenmore Highlands Inc., a company incorporated under the *Business Corporations Act (Alberta)* and which, pursuant to the Arrangement, amalgamated with the Company's wholly-owned subsidiary, Mountain Glen Mining Inc., to form an amalgamated company, also known as Mountain Glen Mining Inc.;

**Glenmore Shares** means the common shares of Glenmore, as the same existed before the Arrangement took effect and "Glenmore Share" means any of them;

**Glenmore Shareholder** means a holder of Glenmore Shares;

**IFRS** means International Financial Reporting Standards, as issued by the International Accounting Standards Board - a system of generally accepted accounting principles, as applied to Mountain Province's financial statements beginning with its transition effective January 1, 2010;

**JDS** means JDS Energy and Mining Inc.;

**Joint Information Circular** means the joint information circular of the Company and Glenmore dated May 10, 2000 for the Extraordinary General Meeting and Special Meeting of the Company and Glenmore respectively to approve the Arrangement;

**Joint Arrangement** or **Gahcho Kué Joint Arrangement** means the joint arrangement between Mountain Province Diamonds Inc., Camphor Ventures Inc., and De Beers Canada, for the Gahcho Kué Project, and as currently governed by the 2009 Agreement;

***Kennady Arrangement*** means the arrangement between the Company and Kennady Diamonds Inc. which was effected as of July 6, 2012;

***Kennady Arrangement Agreement*** means the Kennady Arrangement Agreement dated as of March 12, 2012, and made between the Company and Kennady Diamonds Inc., including the schedules to that agreement;

***Kennady North Project*** means the mining leases (4330, 4466, 4467, and 4468) and eight mineral claims staked in 2010 (Kwezi 01 to Kwezi 08) which were 100% owned by Mountain Province in the area around the Gahcho Kué Project and Kennady Lake, and which were transferred to Kennady Diamonds Inc. under the plan of arrangement between Kennady Diamonds Inc. and Mountain Province effective July 6, 2012;

***Letter Agreement*** means the letter agreement dated March 6, 1997 among Mountain Province Mining Inc., Camphor Ventures Inc., Glenmore Highlands Inc., 444965 B.C. Ltd. and Monopros as amended or supplemented by: an agreement dated April 10, 1997 among Mountain Province Mining Inc., Camphor Ventures Inc., Glenmore Highlands Inc., 444965 B.C. Ltd. and Monopros; an assurance given to De Beers by the other parties., dated July, 1997; an agreement given to De Beers by the other parties dated November 1, 1997 and two agreements each dated December 17, 1999 among the parties;



**Monopros** or **De Beers Canada** means De Beers Canada Inc., formerly known as Monopros Limited, a wholly-owned subsidiary of De Beers and also formally known as De Beers Canada Exploration Inc.;

**Mountain Glen** means Mountain Glen Mining Inc., a wholly-owned subsidiary (now dissolved) of the Company;

**MPV, Mountain Province, Company** or **Registrant** means Mountain Province Diamonds Inc.;

**MPV Shares** means the common shares of MPV, and **MPV Share** means any of them;

**NASDAQ** means the National Association of Securities Dealers Automatic Quotation System, now the Nasdaq Stock Exchange;

**NYSE MKT** means the New York Stock Exchange MKT, renamed from NYSE Amex;

**Old MPV** means MPV prior to its amalgamation with 444965 B.C. Ltd.;

**OTCBB** means the OTC bulletin board;

**PFIC** means Passive Foreign Investment Company under the Code;

**Qualified Person** as defined by Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects), means an individual who:

(1) is an engineer or geoscientist with a university degree, or equivalent accreditation, in an area of geosciences, or engineering, relating to mineral exploration or mining;

(2) has at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these, that is relevant to his or her professional degree or area of practice;

(3) has experience relevant to the subject matter of the mineral project and the technical report; and

(4) is in good standing with a professional association; and

(5) in the case of a professional association in a foreign jurisdiction, has a membership designation that:

(i) requires attainment of a position of responsibility in their profession that requires the exercise of independent judgment; and

(ii) requires:

A. a favourable confidential peer evaluation of the individual's character, professional judgment, experience, and ethical fitness; or

B. a recommendation for membership by at least two peers, and demonstrated prominence or expertise in the field of mineral exploration or mining;

Except where specifically indicated otherwise, scientific and technical information included in this report on Form 20F regarding the Company's mineral projects has been reviewed by Carl Verley, a Director of the Company and a Qualified Person as defined by National Instrument 43-101.

**TSX** means the Toronto Stock Exchange;

**VSE** means the Vancouver Stock Exchange, subsequently renamed the Canadian Venture Exchange, and now known as the TSX Venture Exchange.

## GLOSSARY OF TECHNICAL TERMS

<b>Adit</b>	A horizontal or nearly horizontal passage driven from the surface for the working of a mine.
<b>Archean</b>	The earliest eon of geological history or the corresponding system of rocks.
<b>Area of Interest</b>	A geographic area surrounding a specific mineral property in which more than one party has an interest and within which new acquisitions must be offered to the other party or which become subject automatically to the terms and conditions of the existing agreement between the parties. Typically, the area of interest is expressed in terms of a radius of a finite number of kilometers from each point on the outside boundary of the original mineral property.
<b>Bulk Sample</b>	Evaluation program of a diamondiferous kimberlite pipe in which a large amount of kimberlite (at least 100 tonnes) is recovered from a pipe.
<b>Carat</b>	A unit of weight for diamonds, pearls, and other gems. The metric carat, equal to 0.2 gram or 200 milligram, is standard in the principal diamond-producing countries of the world.
<b>Caustic Fusion</b>	An analytical process for diamonds by which rocks are dissolved at temperatures between 450-600°C. Diamonds remain undissolved by this process and are recovered from the residue that remains.
<b>Craton</b>	A stable relatively immobile area of the earth's crust that forms the nuclear mass of a continent or the central basin in an ocean.
<b>Diabase</b>	A fine-grained rock of the composition of gabbro but with an ophitic texture.
<b>Dyke</b>	A body of igneous rock, tabular in form, formed through the injection of magma.
<b>Feasibility Study</b>	As defined by Canadian National Instrument 43-101, means a comprehensive study of a deposit in which all geological, engineering, operating, economic and other relevant factors are considered in sufficient

detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production.

<b><i>Gneiss</i></b>	A banded rock formed during high grade regional metamorphism. It includes a number of different rock types having different origins. It commonly has alternating bands of schistose and granulose material.
<b><i>Indicator mineral</i></b>	Minerals such as garnet, ilmenite, chromite and chrome diopside, which are used in exploration to indicate the presence of kimberlites.
<b><i>Jurassic</i></b>	The period of the Mesozoic era between the Triassic and the Cretaceous or the corresponding system of rocks marked by the presence of dinosaurs and the first appearance of birds.
<b><i>Kimberlite</i></b>	A dark-colored intrusive biotite-peridotite igneous rock that can contain diamonds. It contains the diamonds known to occur in the rock matrix where they originally formed (more than 100 km deep in the earth).
<b><i>Macrodiamond</i></b>	A diamond, two dimensions of which exceed 0.5 millimeters (mm).
<b><i>Microdiamond</i></b>	Generally refers to diamonds smaller than approximately 0.5 mm, which are recovered from acid dissolution of kimberlite rock.
<b><i>Mineral Reserve</i></b>	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.

THE TERMS "MINERAL RESERVE," "PROVEN MINERAL RESERVE" AND "PROBABLE MINERAL RESERVE" USED IN THIS REPORT ARE CANADIAN MINING TERMS AS DEFINED IN ACCORDANCE WITH NATIONAL INSTRUMENT 43-101 - STANDARDS OF DISCLOSURE FOR MINERAL PROJECTS WHICH INCORPORATES THE DEFINITIONS AND GUIDELINES SET OUT IN THE CANADIAN INSTITUTE OF MINING, METALLURGY AND PETROLEUM (THE "CIM") DEFINITION STANDARDS FOR MINERAL RESOURCES AND MINERAL RESERVES (THE "CIM DEFINITION STANDARDS") AS ADOPTED BY THE CIM COUNCIL ON DECEMBER 11, 2005. IN THE UNITED STATES, A MINERAL RESERVE IS DEFINED AS A PART OF A MINERAL DEPOSIT WHICH COULD BE ECONOMICALLY AND LEGALLY EXTRACTED OR PRODUCED AT THE TIME THE MINERAL RESERVE DETERMINATION IS MADE.

Under United States standards:

"Reserve" means that part of a mineral deposit which can be economically and legally extracted or produced at the time of the reserve determination.

"Economically," as used in the definition of reserve, implies that profitable extraction or production has been established or analytically demonstrated to be viable and justifiable under reasonable investment and market assumptions.



"Legally," as used in the definition of reserve, does not imply that all permits needed for mining and processing have been obtained or that other legal issues have been completely resolved. However, for a reserve to exist, there should be a reasonable certainty based on applicable laws and regulations that issuance of permits or resolution of legal issues can be accomplished in a timely manner.

Mineral Reserves are categorized as follows on the basis of the degree of confidence in the estimate of the quantity and grade of the deposit.

"Proven Mineral Reserve" means, in accordance with CIM Definition Standards, the economically viable 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.

The definition for "proven mineral reserves" under CIM Definition Standards differs from the standards in the United States, where proven or measured reserves are defined as 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 geographic character is so well defined that size, shape, depth and mineral content of reserves are well established.

"Probable Mineral Reserve" means, in accordance with CIM Definition Standards, the economically mineable part of an Indicated, and in some circumstances 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.

The definition for "probable mineral reserves" under CIM Definition Standards differs from the standards in the United States, where probable reserves are defined as reserves for which quantity and grade and/or quality are computed from information similar to that of proven reserves (under United States standards), but the sites for inspection, sampling, and measurement are further apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

***Mineral Resource*** Under CIM Definition Standards, a Mineral Resource is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals 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 extractions. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

THE TERMS "MINERAL RESOURCE", "MEASURED MINERAL RESOURCE", "INDICATED MINERAL RESOURCE", "INFERRED MINERAL RESOURCE" USED IN THIS REPORT ARE CANADIAN MINING TERMS AS DEFINED IN ACCORDANCE WITH NATIONAL INSTRUMENT 43-101 - STANDARDS OF DISCLOSURE FOR MINERAL PROJECTS UNDER THE GUIDELINES SET OUT IN THE CIM DEFINITION STANDARDS. THE COMPANY ADVISES U.S. INVESTORS THAT WHILE SUCH TERMS ARE RECOGNIZED AND PERMITTED UNDER CANADIAN REGULATIONS, THE U.S. SECURITIES AND EXCHANGE COMMISSION DOES NOT RECOGNIZE THEM. THESE ARE NOT DEFINED TERMS UNDER THE UNITED STATES STANDARDS AND MAY NOT GENERALLY BE USED IN DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION BY U.S. COMPANIES. AS SUCH, INFORMATION CONTAINED IN THIS REPORT CONCERNING DESCRIPTIONS OF MINERALIZATION AND RESOURCES MAY NOT BE COMPARABLE TO INFORMATION MADE PUBLIC BY U.S. COMPANIES SUBJECT TO THE REPORTING AND DISCLOSURE REQUIREMENTS OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.

"Inferred Mineral Resource" means, under CIM Definition Standards, that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. U.S. INVESTORS ARE CAUTIONED NOT TO ASSUME THAT ANY PART OR ALL OF AN INFERRED RESOURCE EXISTS, OR IS ECONOMICALLY OR LEGALLY MINEABLE.

"Indicated Mineral Resource" means, under CIM Definition Standards, that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed. U.S. INVESTORS ARE CAUTIONED NOT TO ASSUME THAT ANY PART OR ALL OF THE MINERAL DEPOSITS IN THIS CATEGORY WILL EVER BE CONVERTED INTO RESERVES.



"Measured Mineral Resource" means, under CIM Definition standards that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes that are spaced closely enough to confirm both geological and grade continuity. U.S. INVESTORS ARE CAUTIONED NOT TO ASSUME THAT ANY PART OR ALL OF THE MINERAL DEPOSITS IN THIS CATEGORY WILL EVER BE CONVERTED INTO RESERVES.

- Operator** The party in a joint venture which carries out the operations of the joint venture subject at all times to the direction and control of the management committee.
- Ordovician** The period between the Cambrian and the Silurian or the corresponding system of rocks.
- Overburden** A general term for any material covering or obscuring rocks from view.
- Paleozoic** An era of geological history that extends from the beginning of the Cambrian to the close of the Permian and is marked by the culmination of nearly all classes of invertebrates except the insects and in the later epochs by the appearance of terrestrial plants, amphibians, and reptiles.
- Pipe** A kimberlite deposit that is usually, but not necessarily, carrot-shaped.
- Preliminary Feasibility Study** Under the CIM Definition Standards, means a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established, and which, if an effective method of mineral processing has been determined, includes a financial analysis based on reasonable assumptions of technical, engineering, operating, economic factors and the evaluation of other relevant factors which are sufficient for a Qualified Person acting reasonably, to determine if all or part of the Mineral Resource may be classified as a Mineral Reserve.
- Proterozoic** The eon of geologic time or the corresponding system of rocks that includes the interval between the Archean and Phanerozoic eons, perhaps exceeds in length all of subsequent geological time, and is marked by rocks that contain fossils indicating the first appearance of eukaryotic organisms (as algae).
- Reverse Circulation Drill** A rotary percussion drill in which the drilling mud and cuttings return to the surface through the drill pipe.

**Sill** Tabular igneous rock that parallels the bedding or foliation of the country rock.

**Stringers** The narrow veins or veinlets, often parallel to each other, and often found in a shear zone.

**Tertiary** The Tertiary period or system of rocks.

**Till Sample** A sample of soil taken as part of a regional exploration program and examined for indicator minerals.

**Xenolith** A foreign inclusion in an igneous rock.

#### NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 concerning the Company's exploration, operations, planned acquisitions and other matters. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Statements concerning mineral resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the property is developed, and based on certain assumptions that the mineral deposit can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be "forward-looking statements." Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation:

- § risk that the development of the mine will not be consistent with the Company's expectations;
- § risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits;
- § results of initial feasibility, pre-feasibility and feasibility studies, and the possibility that future exploration, development or mining results will not be consistent with the Company's expectations;
- § mining exploration risks, including risks related to accidents, equipment breakdowns or other unanticipated difficulties with or interruptions in production;
- § risks related to foreign exchange fluctuations and prices of diamonds;
- § risks related to commodity price fluctuations;
- § the uncertainty of profitability based upon the Company's history of losses;
- § risks related to failure of its joint venture partner to continue to obtain adequate financing on a timely basis and particularly given recent volatility in the global financial markets;

development and production risks including and particularly risks for weather conducive to the building and use of  
§ the Tibbitt to Contwoyto Winter Road;  
§ risks related to environmental regulation, permitting and liability;  
§ risks related to legal challenges to construction and/or operating permits that are approved and/or issued;

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- § political and regulatory risks associated with mining, exploration and development;
- § risks related to adverse changes to laws or administrative practices of a tax authority in respect of income tax, mining tax, royalty or other governmental taxes, levies or charges.
- § the ability to develop and operate the Company's Gahcho Kué Diamond Mine on an economic basis and in accordance with applicable timelines;
- § aboriginal rights and title;
- § failure of plant, equipment, processes and transportation services to operate as anticipated;
- § possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, land titles, and social and political developments, and other risks of the mining industry; and
- § other risks and uncertainties related to the Company's prospects, properties and business strategy.

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 any other property 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 obtaining all permits pertaining to 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**

The Mineral Reserve & Resource Information included in 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, 2015, 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:

<b>To Convert From Metric</b>	<b>To Imperial</b>	<b>Multiply by</b>
Hectares	Acres	2.471
Metres	Feet (ft.)	3.281
Kilometres (km.)	Miles	0.621

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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.*

You should read the following selected financial data together with Item 5, "Operating and Financial Review and Prospects", the Consolidated Financial Statements in Item 18 and the other information in this Annual Report. The selected financial data presented below is derived from our Consolidated 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").

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

The consolidated financial information in the below tables for the years ended 2011, 2012, 2013, 2014 and 2015 was prepared in accordance with IFRS as issued by the IASB.



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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

	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Operating Revenue	nil	nil	nil	nil	nil
Loss from operations	(6,317 )	(4,727 )	(27,088 )	(14,179 )	(12,268 )
Net Loss	(43,169 )	(4,394 )	(26,604 )	(3,338 )	(11,539 )
Basic and diluted loss per share	(0.28 )	(0.04 )	(0.28 )	(0.04 )	(0.15 )
Total Assets	582,848	300,995	110,367	95,590	66,557
Share Capital	472,286	377,614	209,820	180,170	146,912
Net Assets -	308,681	254,910	91,193	87,195	57,132
Number of Common Shares issued	159,678,833	135,204,550	100,501,351	94,168,151	80,345,558

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

**Exchange Rate Information**

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 six 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-15	Dec-14	Dec-13	Dec-12	Dec-11
US\$0.7820	US\$0.9054	US\$0.9710	US\$1.0004	US\$1.0111

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

Month	High (US\$)	Low (US\$)
February 2016	0.7418	0.7148
January 2016	0.7152	0.6821
December 2015	0.7497	0.7161
November 2015	0.7627	0.7468
October 2015	0.753	0.7728
September 2015	0.7573	0.7431

On March 24, 2016, the closing rate in Canadian dollars as per the Bank of Canada (the "Exchange Rate") was \$1 Canadian = US\$0.7553.

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.

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 stage of the Gahcho Kué 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 a Term Loan Facility and a Cost Overrun Facility in place to construct the Gahcho Kué Project. The Company's ability to achieve and maintain profitability and positive cash flow is dependent upon the Company's ability to develop and achieve profitable operations at the Gahcho Kué mine. The Company currently does not generate any cash flow.

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

The Company's Gahcho Kué Project is in the development stage. The Company's future mining operation may never become profitable.

*(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.

The Company may not have the ability to pay for exploration or development costs on any other properties it may acquire. 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 remainder of 2016, but is expected to be in commercial production from January 2017.

The Company has a history of losses and is likely to continue to incur losses for the remainder of 2016. During the fiscal years ended December 31, 2015, 2014, and 2013, the Company incurred net losses.

- \$43.169 million loss for the year ended December 31, 2015
- \$4.394 million loss for the year ended December 31, 2014; and
- \$26.604 million loss for the year ended December 31, 2013.

As of December 31, 2015, the Company had an accumulated deficit of \$168.381 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 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 raise required financing in the future could cause the Company to go out of business.

As of December 31, 2015, the Company had cash and short-term investments of approximately \$9.1 million and working capital deficiency of approximately \$32.4 million.

During the past two fiscal years ended December 31, 2015 and December 31, 2014, the Company used approximately \$13.1 million in cash flows in operating activities including approximately \$4.2 million during the year ended December 31, 2015.

Financing activities for the year ended December 31, 2015 were \$265.2 million compared to \$166.0 million for the year ended December 31, 2014. During 2015, the Company drew \$198.2 million from the term loan facility to fund the development of the Gahcho Kué Project.

The Company's administrative and other expenses are expected to be approximately \$4.3 million for the next year, in addition to an estimated \$188.4 million plus a 3% management fee for the Company's proportional share of expenses for the Gahcho Kué joint Arrangement for 2016.

(j) Gahcho Kué Project probable reserves.

The Gahcho Kué Project is the Company's only property and is in the development stage. 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". It is not guaranteed that these reserves when mined will be economic.

(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 net increase for the twelve months of approximately 17%. According to industry leaders, in 2012 rough diamond prices dropped by approximately 12 percent and remained largely unchanged through 2013. During 2014, rough diamond prices were generally flat year over year and during 2015 we have seen rough diamond prices drop by approximately 17%-20%. While the supply/demand fundamentals for diamonds would indicate good price support and steadily rising prices in the future, such fluctuations make it difficult to predict future diamond prices with a high degree of certainty. To mitigate against this, the Company uses modeled diamond prices in its economic studies and mine planning. Nonetheless, the Company's future results of operation may fluctuate significantly if rough diamond price volatility continues into the future.

(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 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.

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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 is subject to climate and transportation risks because of its remote northern location and relies on a winter ice road for two months of the year to transport all material, equipment and fuel to last until the following year's winter ice road. Such factors can add to the costs of development and operation, thereby increasing costs and negatively affecting profitability. The availability of weather conducive to building and operating the Tibbitt to Contwoyto Winter Road is particularly critical to the development of the mine, and production.

(o) The Company is dependent upon its joint arrangement 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 arrangement 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 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.

*(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) Aboriginal Rights and Title

Governments in Canada must consult with aboriginal peoples with respect to grants of mineral rights and the issuance of or amendment to project authorizations. Consultation regarding rights or claimed rights of aboriginal people may require accommodations, including undertakings with respect to employment and other matters. This may affect the Company's timetable and costs of development of mineral properties. Aboriginal rights or title claims could affect the Company's existing operations, in addition to its future acquisitions. These legal requirements, among other things, may affect the Company's ability to develop the Gahcho Kué Project and other mineral properties or may materially delay the development of such properties.

(u) Future equity financings which the Company may undertake would cause shareholders' interests in the Company to be diluted.

The Company has arranged a Loan Facility of US\$370 million and during the year ended December 31, 2015, issued common shares by way of a rights offering for gross proceeds of \$95 million. The Company believes that the Loan Facility of US\$370 million together with \$95 million raised by way of a rights offering should be sufficient to fund its proportionate share of the development of the Gahcho Kué diamond mine and does not expect to seek additional equity financing, however if the Company is required to seek 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, 2015, the Company had cash and short-term investments of approximately \$9.1 million and working capital deficiency of approximately \$32.4 million.

Until the Company is generating positive cash flow from its investment in the Gahcho Kué diamond mine any exploration on any other properties acquired will require additional funding and 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, rights offerings, credit and debt facilities, as well as the exercise of outstanding options. 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, are approximately \$4.3 million.

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

As at March 29, 2016, there were 2,950,000 options (including options not fully vested) outstanding with exercise prices ranging from \$3.57 to \$5.29 (expiring at various dates). The stock options, if fully exercised, would increase the number of shares outstanding by 2,950,000. Such options, if fully exercised, would constitute about 1.86% (out of 159,678,833 shares (162,628,833 issued and outstanding, plus total outstanding options)) of the Company's resulting share capital as at March 29, 2016.

It is unlikely that outstanding options 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.

(w) Members of our Management and 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 Vice President Finance, CFO and Corporate Secretary, Bruce Ramsden, 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.

(x) 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.

(y) The Company's stock price is subject to significant fluctuations.

Prices for the Company's shares on the TSX and on the NYSE MKT (formerly NYSE Amex) and NASDAQ, have been extremely volatile. The Company commenced trading on the NASDAQ on December 31, 2014.

The price for the Company's common shares on the TSX ranged from \$3.41 (low) and \$5.37 (high) during the fiscal year ended December 31, 2015, and from \$4.85 (low) to \$6.08 (high) during the fiscal year ended December 31, 2014.

The price on the NASDAQ ranged from \$2.48 US (low) and \$4.34 US (high) during the fiscal year ended December 31, 2015. The price on the NYSE MKT for the year ended December 31, 2014 ranged from \$4.16 US (low) to \$5.58 US (high). Any investment in the Company's securities is therefore subject to considerable fluctuations in value.

(z) The Company has not paid dividends in the past and does not anticipate paying them in until significant cash flow is generated.



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 until significant cash flow is generated. 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.

(aa) 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. During the year ended December 31, 2015 as a requirement of the term loan facility the Company entered into foreign currency forward strip contracts to buy Canadian dollars and sell U.S. dollars. The Company also entered into U.S dollar floating to fixed interest rate swaps for 75% of the outstanding principal balance of the term loan facility. **In particular, a strong Canadian dollar relative to the U.S. dollar during operations would negatively impact the Gahcho Kué Project.**

(bb) 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. As well, De Beers Canada is the operator of the Gahcho Kué Project, and has an equity investment in the Company. With the execution of the 2009 Agreement, De Beers and the Company share funding responsibility for the Gahcho Kué Project. Under the 2009 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 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. 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. In addition, during the development phase, if either party is unable to fund its proportionate share, this party may be diluted.

*(cc) 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.

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

NASDAQ has established certain standards for the continued listing of a security on this exchange. If the MPV Shares were to be excluded from NASDAQ, 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 NASDAQ.

*(ee) There can be changes to laws or administrative practices of a tax authority in respect of income tax, mining tax, royalty or other governmental taxes, levies or charges that may have a material adverse impact on the company.*

*(ff) 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 PFIC during the tax year ended December 31, 2015, 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, 2016, and may be a PFIC in subsequent tax years. 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 became a controlling shareholder of the Company as a result of the amalgamation of 444965 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") 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.

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.

Baltic Minerals BV and its subsidiary Baltic Minerals Finland OY were voluntarily dissolved in 2006.

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).

On July 30, 2014 Camphor, incorporated on May 9, 1986 (as Sierra Madre Resources Inc.), continued into Ontario, and Camphor amended its articles and continued incorporation under the *Business Corporations Act (Ontario)*, transferring from the Company Act (British Columbia).

On October 1, 2014, Camphor, and the Company were amalgamated under the name "Mountain Province Diamonds Inc."

On October 2, 2014, 2435386 Ontario Inc. ("Newco") was incorporated as a wholly owned subsidiary of the Company. At the request of the project debt facility lenders, the participating interest of the Company in the Gahcho Kué Project was transferred to Newco in exchange for common shares of Newco.

On October 3, 2014, 2435572 Ontario Inc. was incorporated as a wholly owned subsidiary of the Company.

On October 3, 2014, the Company transferred the shares of Newco to 2435572 Ontario Inc.

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:

<b>Name of Subsidiary</b>	<b>Date of Incorporation</b>	<b>Jurisdiction of Incorporation</b>
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2435386 Ontario Inc.	October 2, 2014	Ontario Canada
2435572 Ontario Inc.	October 3, 2014	Ontario Canada

On February 27, 2012, the Company incorporated a wholly-owned subsidiary named Kennady Diamonds Inc. under the Ontario Business Corporations Act. This subsidiary was formed for the purpose of effecting the transfer of Mountain Province's interest in the Kennady North Project in Northwest Territories, Canada and operations to a new company as contemplated under a Mountain Province plan of arrangement which closed July 6, 2012. Until the completion of the plan of arrangement, Kennady Diamonds Inc. was a wholly-owned subsidiary of Mountain Province. Upon completion of the plan of arrangement, Mountain Province distributed the shares of Kennady Diamonds to Mountain Province shareholders on the basis of one Kennady Diamonds' share for every five shares of Mountain Province held by shareholders.

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

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 NASDAQ under the symbol "MDM". Prior to December 31, 2014, the Company's shares traded on the NYSE MKT (formerly NYSE Amex). 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 other than the development of the Gahcho Kué Project.

### **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.

### *Acquisition of Camphor Ventures Inc.*

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. On October 1, 2014, Camphor and the Company amalgamated under the name "Mountain Province Diamonds Inc."

### *Disposition of Kennady North Project*

On March 12, 2012, Kennady Diamonds Inc. and Mountain Province entered into an arrangement agreement (the "Kennady Arrangement Agreement") pursuant to which Mountain Province agreed to would transfer its interest in the Kennady North Project, in the Northwest Territories in Canada, including permits, mining claims, rights and title, to Kennady Diamonds Inc. in exchange for common shares of Kennady Diamonds Inc.

Upon completion of the Kennady Arrangement on July 6, 2012, Kennady Diamonds Inc. issued 16,143,111 shares to Mountain Province which was distributed along with the one share held by Mountain Province to the Mountain Province shareholders in exchange for the assets and cash transferred, as contemplated by the Kennady Arrangement. The transactions contemplated by the Kennady Arrangement was completed on July 6, 2012. Kennady Diamonds Inc. began trading on the TSX Venture Exchange on July 10, 2012 under the ticker symbol "KDI".

B.

*Business overview.*

*1.1 Introduction*

The Company is a natural resource property exploration and development company. At this time, the Company has interest in one natural resource property – its 49% interest in the Gahcho Kué Property located in the Northwest Territories of Canada. See "Item 4D - Property, plants and equipment".

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

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 referred to these eight claims and its five 100%-owned mineral leases as the Kennady North Project. In 2012, through a plan of arrangement, Mountain Province's interest in the Kennady North Project and cash were transferred to Kennady Diamonds Inc.

*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. This Gahcho Kué Joint Venture Agreement was amended and restated in July 2009 (see “Description of Property – *Amended and Restated Joint Venture Agreement*”).

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".

In July 2009 the Company entered into an Amended and Restated Joint Arrangement Agreement with De Beers Canada of which details are provided below.

In October 2010 the Company announced the results of the Definitive Feasibility Study. The full Technical report was filed on EDGAR on December 3, 2010 under Form 6K and on the relevant Securities Commissions in Canada on the System for Electronic Document Analysis and Retrieval ("SEDAR") on December 3, 2010.

Based on the positive results of the Definitive Feasibility Study, the Company and De Beers approved the development of the Gahcho Kué diamond mine in June, 2011, subject to the successful permitting of the project.

On July 22, 2013 Mountain Province and De Beers Canada announced that the Mackenzie Valley Environmental Impact Review Board (MVEIRB) had completed the Gahcho Kué Environmental Impact Assessment and recommended approval of the proposed Gahcho Kué diamond mine subject to certain measures and follow-up programs.

In October 2013 the Canadian Federal Minister of Aboriginal Affairs and Northern Development approved the development of the Gahcho Kué diamond mine subject to the measures and follow-up programs recommended by the



MVEIRB.

On December 2, 2013 Mackenzie Valley Land and Water Board approved a pioneer Land Use Permit for the Gahcho Kué diamond mine, which allowed for the commencement of land-based site works in preparation for the start of full construction in 2014.

In May 2014 the 2014 Technical report was filed on EDGAR under Form 6K and on the relevant Securities Commissions in Canada on SEDAR. The authors of the report concluded that the Gahcho Kué Project is economically viable, technically credible, and environmentally sound.

On August 12, 2014, De Beers and the Company announced that the Mackenzie Valley Land and Water Board had issued the Gahcho Kué Type A Land Use Permit and sent the Type A Water License for final approval to the Minister of Environment and Natural Resources (of the Government of the Northwest Territories).

On September 25, 2014, De Beers and the Company announced that the Gahcho Kué Project had received approval of the Type A Water License by the Minister of Environment and Natural Resources of the Government of the Northwest Territories.

### **Other Properties**

The Company regards only the AK Property (the “Gahcho Kué Project”) as material at this time. The Company’s former Kennady North Project is discussed only briefly in this document. For further particulars, reference should be made to “Item 4D - Property, plants and equipment - Other Properties”.

#### *Kennady North*

The Company (outside of the Joint Arrangement with De Beers Canada) had 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. This was known as the Company’s Kennady North Project. These mining leases and claims were not part of the 2009 Gahcho Kué Joint Arrangement Agreement with De Beers Canada and were not considered part of the Gahcho Kué Project. Historical exploration on the Kennady North Project was done starting in 1992 and continued until about 12 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, and in late 2011, undertook an airborne gravity gradiometer survey over the Kennady North Project leases and claims.

On March 12, 2012, Kennady Diamonds Inc. and Mountain Province entered into the Kennady Arrangement Agreement pursuant to which Mountain Province agreed to would transfer its interest in the Kennady North Project, in the Northwest Territories in Canada, including permits, mining claims, rights and title, to Kennady Diamonds Inc. in exchange for common shares of Kennady Diamonds Inc.

Upon completion of the Kennady Arrangement on July 6, 2012, Kennady Diamonds Inc. issued 16,143,111 shares to Mountain Province which were distributed along with the one share held by Mountain Province to the Mountain

Province shareholders in exchange for the assets and cash transferred, as contemplated by the Kennady Arrangement. The transactions contemplated by the Kennady Arrangement were completed on July 6, 2012. Kennady Diamonds Inc. began trading on the TSX Venture Exchange on July 10, 2012 under the ticker symbol "KDI".

### **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, 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.

## 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 and development activities, as well as future 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 *Canadian Environmental Protection Act*, the *Migratory Bird Act*, the *Northwest Territories Waters Act*, the *Northwest Territories Wildlife 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. Generally, 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 water licence also has requirements for monitoring and reporting of water and waste as well as determines reclamation and closure requirements. 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.

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 development 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

The Company's main property is the Gahcho Kué Project.

*Amended and Restated Joint Venture Agreement*

On July 3, 2009, the Company entered the "2009 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 Agreement:

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 1. except for normal dilution provisions which are applicable to both Participants. On October 2, 2014, Mountain Province assigned its 49% interest to its wholly-owned subsidiary 2435386 Ontario Inc. to the same extent as if 2435386 Ontario Inc. had been the original party to the Joint Venture Agreement;



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 Agreement (Mountain Province's contribution to the 2009 Gahcho Kué Joint Arrangement expenses to date of execution of the 2009 Agreement) (paid);
  - Up to \$5.1 million in respect of De Beers Canada's share of the costs of the feasibility study (paid \$4,417,421 to December 31, 2013, capitalized as "Mineral Properties" in the Company's financial statements – no further costs expected);
  - \$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 Arrangement Agreement – paid March 15, 2011);
  - \$10 million following the issuance of the construction and operating permits – paid October 27, 2014;
  - \$10 million following the commencement of commercial production; and
  - The balance of approximately \$24.4 million plus approximately \$25.0 million of accrued interest within 18 months following commencement of commercial production. At December 31, 2015, accumulated interest of approximately \$19.1 million is owing. Accumulated interest is being calculated at the prevailing LIBOR rate plus 5%.

2435386 Ontario Inc. 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 payments described above.

#### Extracts from Technical Report

Unless otherwise stated, the technical information in this section from the sub-headings "Property Description and Ownership" to "Conclusion" is based upon Independent Qualified Person's Technical Report dated May 13, 2014 as amended May 27, 2014 (with information effective as of March 31, 2014) (the "2014 Technical Report") entitled "Gahcho Kué Project, 2014 Feasibility Study Report, NI 43-101 Technical Report " prepared for the Gahcho Kué Project by JDS Energy and Mining Inc. and Hatch Ltd.by:

. Daniel D. Johnson, P.Eng. (JDS)  
. Kenneth Meikle, P.Eng. (JDS)  
. Dino Pilotto, P.Eng. (JDS)

Kato Lone, Eng. (Hatch)

The details about the 2014 Technical Report were filed on EDGAR on May 28, 2014 under Form 6K. The full Technical Report was also filed on SEDAR on May 28, 2014.

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 2014 Technical Report.

The following are the financial and project highlights from the 2014 Technical Report:

· Project IRR including sunk costs	21.9%*
· Project IRR excluding sunk costs	32.6%
· Initial project capital	\$858.5 million
· Working capital	\$80.1 million
· Sustaining capital including mine closure	\$92.7 million
· Operating costs	\$72.51 per tonne
· Project mine life	12 years
· Average annual production	3 million tonnes
· Total diamond production	53.4 million carats
· Average annual diamond production	4.45 million carats
· Diamond price	US\$118.38 per carat**

\*After taxes/royalties and unleveraged

\*\*The base case model uses an average realized diamond price of US\$118.38 per carat derived from WWW (based on their February 2014 price books) over LOM. No marketing fees has been assumed.

### Property Description & Ownership

The Gahcho Kué Project is a joint venture of De Beers Canada and the Company, with ownerships of 51% and 49%, respectively. On October 2, 2014, 2235386 Ontario Inc. was incorporated and the participating interest of the Company in the Gahcho Kué Project was transferred to this entity in exchange for common shares of Newco. On the same day, the Company assigned the shares of Newco to 2235386 Ontario Inc. (“Holdco”), as acknowledged by De Beers Canada. The restructuring of the Company’s participating interest in the Gahcho Kué Project was completed at the request of the Company’s project lenders.

The property is located in the Northwest Territories (NWT) of Canada, in the District of Mackenzie, 300 km east-northeast of Yellowknife and 80 km east-southeast of the existing Snap Lake Mine (operated by De Beers Canada). The site lies on the edge of the continuous permafrost zone in an area known as the barren lands. The surface is characterised as heath/tundra, with occasional knolls, bedrock outcrops, and localised surface depressions interspersed with lakes. A thin discontinuous cover of organic and mineral soil overlies primarily bedrock, which, occurs typically within a few metres of surface. Some small stands of stunted spruce are found in the area. 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.

The site has a 1600 meter long gravel airstrip and can be accessed in both summer and winter months with small and large aircrafts during the day and at night.

A winter road connects Yellowknife to the Snap Lake, Ekati, and Diavik mines during February and March each year (Figure 1-1). The road is operated under a Licence of Occupation by the winter road JV Partners who operate the Ekati, Diavik, and Snap Lake mines. The road passes within 70 km of the Gahcho Kué site, at Mackay Lake. A 120 km winter road spur has been established from Mackay Lake to the project site, and was open in 1999, 2001, 2002, 2006, 2013, 2014 and 2015. The 120 km winter road spur will be constructed each year to support the mine construction and operation.

The Gahcho Kué kimberlite deposits are located within a series of mineral leases as shown in Figure 1-2. Surface rights (land leases) were obtained on October 16, 2015 and are shown in Figure 1-3.

**Figure 0-1: Location of Gahcho Kué**

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**Figure 0-2: Mineral Lease Boundary Map**

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**Figure 0-3: Permit Lease Boundary**

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## Geology, Resources & 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.

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 baseline estimation and classification of the mineral resources was completed by AMEC Americas Limited ("AMEC"), summarised in the 2009 Technical Report. Additions /modifications to the AMEC mineral resource for the Tuzo Deep mineral resources deeper than 300 metres below surface (mbs) elevation are summarised in the 2013 Technical Report, Update of the Mineral Resource Estimate for the Tuzo Kimberlite prepared by Mineral Services Canada Inc. ("Mineral Services") as a result of an additional 'Tuzo deep' drilling program undertaken in 2012.

The Gahcho Kué Project resources are summarised in Table 1.1. JDS Energy and Mining Inc. ("JDS") has reviewed both the 2009 Technical Report and 2013 Technical Report, Update of the Mineral Resource Estimate resource statements and has compiled the information into a single resource estimate table for the Report. JDS is of the opinion that the resource estimates presented in Table 1.1 provide an accurate and complete basis for the 2014 feasibility study. JDS determined the appropriate conversion of resources to reserves through the mine design process and economic analysis described in the 2014 Technical Report. The optimization results and subsequent mine design have determined the economic mineral reserve estimate for each pipe as summarised in Table 1.2.

**Table 1.1: Mineral Resource Summary (March 31, 2014)**

Resource	Classification	Volume Mm <sup>3</sup>	Tonnes Mt	Carats Mct	Grade cpht
5034 - (Amec 2009)	Indicated	5.1	12.7	23.9	188
	Inferred	0.3	0.8	1.2	150
Hearne - (Amec 2009)	Indicated	2.3	5.3	11.9	223
	Inferred	0.7	1.6	2.9	180
Tuzo - (Amec 2009) (0-300 mbs)	Indicated	5.1	12.2	14.8	121
Tuzo - (Mineral Services 2013) (300-564 mbs)	Indicated	1.5	3.6	6.0	167
	Inferred	3.7	8.9	14.4	161
Summary	Indicated	14.0	33.8	56.6	167
	Inferred	4.7	11.3	18.5	163

Notes:

- (1) Mineral Resources are reported at a bottom cut-off of 1.0 mm.
- (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 volume and tonnes exclude 0.6 Mt of a granite raft and CRX\_BX.
- (5) Resources have been reported in this report to remain consistent with previous technical reports.

**Table 1.2: Mineral Reserve Estimate**

Pipe	Classification	Tonnes (Mt)	Carats (Mct)	Grade (cpt)
5034	Probable	13.4	23.2	1.74
Hearne	Probable	5.6	11.7	2.07
Tuzo	Probable	16.4	20.6	1.26
Total	Probable	35.4	55.5	1.57

The economic viability presented in Sections 13 to 15 of the 2014 Technical Report confirms that the probable reserve estimates meet and comply with CIM definitions and NI 43-101 standards. The authors of the 2014 Technical Report conclude that the project is economically viable using current diamond prices and prevailing long-term price estimates. Detailed mine planning and economic evaluation have been performed on a sub-set of the results summarised in Table 1.2.

This 2014 Feasibility 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.

## **Mining**

The mine design and consequent mine plan considers indicated and inferred mineral resources of the 5034, Hearne, and Tuzo kimberlite pipes. Conventional truck/shovel mining utilising 29 m<sup>3</sup> bucket diesel hydraulic front shovels, a 17 m<sup>3</sup> front-end loader and 218 t class haulage trucks will be employed to mine the kimberlite and waste quantities. This large fleet will be augmented by 12 m<sup>3</sup> bucket front-end loaders and excavators and 90 t haul trucks.

Pit designs were developed using optimised Whittle shells as a basis, and these were used to develop the mine production plan and schedule. The plans were optimised to smooth waste stripping requirements, while ensuring adequate kimberlite exposure to meet kimberlite feed requirements, as well as waste storage considerations within the Hearne and 5034 throughout the mine life.

Pre-stripping began on land in the northern half of the 5034 pit in 2014, with the majority of the granite waste used for road, dyke and infrastructure pad construction. Unsuitable overburden material will be placed in the South mine rock pile. Mining continues in the northern portion of 5034 until 2015, when mining in the southern half of the 5034 pit begins. Full production capacity of approximately 250,000 tonnes of kimberlite per month is targeted to be reached by 5034 in January 2017.

Pre-stripping/pioneering of Hearne pit is scheduled to start in January 2017. Approximately half of kimberlite production will be sourced from Hearne from 2017 to 2019, slowing in 2020 as Hearne reaches the final deepest benches. Priority has been placed on mining Hearne in these years in order to open up waste storage capacity within the pit as soon as it has been completed. Hearne will be mined with no internal phases. During 2020, as Hearne is completed, equipment will begin stripping the first phase of Tuzo. Processed kimberlite will be diverted to the mined-out Hearne pit. Once dewatering is complete in 2022, Phase 1 of Tuzo will also be completed and the expansion to Phase 2 will begin. In 2023, the 5034 pit is scheduled to be completed. From this point on, mine rock from Tuzo will be placed in the mined-out 5034 pit. Tuzo mining continues at 3 Mt/a until 2028.

## **Recovery Methods**

The Gahcho Kué Project will mine kimberlite resources from three different deposits: 5034, Hearne, and Tuzo. In the process plant, this material will be treated via crushing, screening, dense media separation and x-ray sorting, to produce a diamond rich concentrate that will be hand sorted on site with the resulting diamond product sent to Yellowknife for final cleaning and Northwest Territories Government valuation. The processing plant is targeting the recovery of liberated diamonds in the 1 to 28 mm size range. The processing plant is designed for efficient diamond recovery over the plant's 12-year life. The Gahcho Kué Plant processes will be automated to allow high-quality production with minimal human intervention.

## **Site & Infrastructure**

The Gahcho Kué site is typical of many northern Canadian mining operations that lack local and regional infrastructure such as permanent road access, navigable shipping routes and ports, and external utilities. Therefore, the Gahcho Kué site requires extensive infrastructure to sustain operations, including power generation, sewage and water

treatment, personnel accommodation, storage facilities for materials delivered on the limited annual winter ice road, and an aerodrome to provide year-round cargo, food and passenger aircraft access. The overall site plan is shown in Figure 1-4.

The majority of supplies during construction and operation will be shipped to site during a ten-week winter road season. A 120 km winter access spur road will be constructed each year to connect the project site to the Tibbitt-to-Contwoyto winter road at km 271, just north of Lake of the Enemy.

The layout of the site is based on several criteria:

- o all major structures to be founded on bedrock
- o compact footprint for minimal land disturbance and maximum site operations efficiency
- o compact building sizes and layout for maximum energy efficiency
- o efficient facility access for personnel and vehicles during construction and operations
- o minimal impact of winter road truck traffic around the site.

**Figure 1-4: Overall Site Plan**

**Environmental & Socioeconomic**

Baseline biophysical information has been collected since 1996. In recent years, there has been a concerted effort to obtain information that will provide an appropriate basis for use in the future monitoring programs to identify potential effects and to evaluate impact predictions and monitor the efficacy of mitigation.



Multiple environmental monitoring and management plans have been prepared to track and mitigate any impact that the project has on the environment. Water management plans are adaptations of plans used successfully at other NWT diamonds mines. At Gahcho Kué, all potentially contaminated water is kept within a controlled management basin formed by natural drainage patterns. Excess storage capacity allowances created by initial lake dewatering activities provide for operational flexibility and contingencies. Normal mine operations incorporate a program of progressive reclamation that minimizes costs and allows timely 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 completion of the reclamation of the waste storage areas used during the years.

De Beers Canada has prepared an Environmental Impact Statement (EIS) for the project. Based on the EIS the Project has completed an Environmental Impact Review (EIR) process with the Mackenzie Valley Environmental Impact Review Board (MVEIRB). The MVEIRB process was completed in 2013 and based on Review Panel's recommendation, the Federal Minister approved the project on October 22, 2013, and the project entered into the permitting and licensing phase.

The Mackenzie Valley Land and Water Board (MVLWB) issued a Land Use Permit (LUP) on November 29, 2013 to undertake preliminary (early or pioneer work associated with camp, airstrip, fuel storage, equipment mobilization, etc.) in preparation for the development of the Gahcho Kué diamond mine. On November 28, 2013, De Beers submitted an application for the Type A Land Use Permit (LUP) and Type A Water Licence (WL) for the Gahcho Kué diamond mine.

On August 12, 2014, De Beers and the Company announced that the Mackenzie Valley Land and Water Board has issued the Gahcho Kué Type A Land Use Permit and sent the Type A Water License for final approval to the Minister of Environment and Natural Resources of the Government of the Northwest Territories (GNWT).

On September 25, 2014, De Beers and the Company announced that the Gahcho Kué Project had received approval of the Type A Water License by the Minister of Environment and Natural Resources of the Government of the Northwest Territories, the Hon. Michael J. Miltenberger.

De Beers received approval from the Department Fisheries and Oceans Canada (DFO) under the *Fisheries Act* to undertake the necessary activities that impact fish habitat. These permits/authorizations were received in 2014 to allow the fish out to commence. An application was submitted for authorization of dykes and dams under the *Navigation Protection Act*. These permits/authorizations were received in Q4 of 2014 to allow the mine to begin full-scale construction.

A Socioeconomic Agreement (SEA) for the project was signed with the Government of the Northwest Territories (GNWT) on June 28, 2013. The SEA establishes hiring priorities and employment incentives for the project, training and employment objectives, business procurement objectives and it outlines how De Beers and the GNWT will work together to ensure the health and cultural well-being of NWT Residents. The mine will create close to 1,000 jobs during the two-year construction phase and some 450 permanent jobs during the 12-year operational phase.

Additional employment will be created by the multitude of service providers to the project. Impact and Benefit Agreements (IBAs) are in place for the First Nation groups in the vicinity.

## Project Execution

Project execution for the Gahcho Kué Project is based on tested and proven principles utilised in the development of diamond mines in the Canadian Arctic.

The only road access to site will be an ice road that will be used to transport all heavy and bulky material. The ice road is open for two months every year, generally in February and March. The execution strategy has been developed around this constraint. People and goods for the camp will be flown into the site area along with smaller and lighter equipment and material required for the construction work that can be mobilised by air.

Procurement activities started in the fall of 2013 for packages critical to the 2014 winter road. All future activities have taken into consideration lead time for equipment, bulks and fabrication as well as quality inspection requirements and the need for on-site expediting. Lead times were established through contact with potential bidders during the fall of 2013.

Engineering activities were well advanced during the feasibility study phase and all long lead equipment has been purchased. Engineering has been sequenced from construction and procurement activities so that equipment and facilities are designed in time to order and deliver components and materials to site as scheduled.

Table 1.3 highlights the key project milestones of the project.

**Table 1.3: Key Period Milestones**

<b>Milestone</b>	<b>Start</b>	<b>Finish</b>
Pioneer Works Permit Issued / Start work	Dec. 2013	Dec. 2013
<b>2014 Ice Road</b>	<b>Feb. 2014</b>	<b>Feb. 2014</b>
Air Strip Operational	May 2014	Dec. 2014
Permanent Camp Installation	June 2014	Nov. 2014
Land Use Permit/Water Licence Issued	Oct. 2014	Oct. 2014
<b>2015 Ice Road</b>	<b>Feb. 2015</b>	<b>Feb. 2015</b>
Concrete Works	April 2015	April 2015
Mechanical Works	May 2015	May 2016
Emulsion Plant Completed	Dec. 2015	Dec. 2015

Truck Shop Completed	Dec. 2015	Dec. 2015
<b>2016 Ice Road</b>	<b>Feb. 2016</b>	<b>Feb. 2016</b>
Process Plant Mechanical Completion	May 2016	May 2016
Commissioning Commence	May 2016	May 2016
First Kimberlite in Plant	Sept. 2016	Sept. 2016
Ramp Up To Full Production	Sept. 2016	Jan. 2017

## Capital Cost Estimate

The capital cost estimate is based on:

- o Contingency established via Quantitative Risk Analysis (QRA).
- o A combination of committed and firm bid prices for major mobile mining equipment
  - o Budget prices for the minor mobile equipment.
  - o Firm and budget proposals for select equipment packages.
  - o Material Take-Offs (MTOs)
- o Labour rates were from the proposed general contractor (Ledcor Projects Inc.). Ledcor were not awarded the contract.
- o Committed unit labour rates for earthworks equipment operators
- o Labour productivity based on historical project experience with cold environment projects.
  - o Freight cost calculations.
- o The project schedule outlined in 2014 Technical Report execution plan.
  - o Detailed estimates of indirect costs.
- o Applying escalation to costs scheduled to be spent beyond 2013.

The original capital cost for the project is C\$1,019 million including C\$75.6 million of contingency. Please review Item 5 ‘Operating and Financial Review and Prospects’ under ‘Gahcho Kué Capital Program’.

Table 1.4 summarizes the capital cost by Work Breakdown Structure (WBS).

**Table 1.4: Capital Cost Estimate by WBS**

WBS	Description	CAD (M)
		<b>ORIGINAL BUDGET</b>
1000	Mine Operations	188.8
2000	Site Development & Roadworks	10.3
3000	Process Facilities	134.4
4000	Utilities	48.9
5000	Ancillary Buildings	51.8
6000	Waste & Water Management	6.1
7000	Off-site Facilities	0.4
Subtotal - Direct Costs =		440.7

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8000	Owner's Management Costs	100.2
9000	Indirect Costs	360.5
Subtotal – Owners + Direct Costs =		460.7
9900	Contingency	75.6
9910	Escalation	42.0
Total - Projects		1,019.0

The \$1,019 M capital costs figure shown in Table 1.4 includes Sunk Costs for 2011, 2012 and 2013 totalling \$118.6 M. The capital cost includes escalation during construction the construction phase \$42.0 M

## Operating Cost Estimate

The operating cost estimate was developed by JDS based on first principles and by applying direct applicable project experience and avoiding the use of general industry factors. JDS is of the opinion that the operating cost estimate is an accurate representation of the mine operating costs based on the reasonable inputs and assumptions made at the time.

Operating cost estimate inputs were provided by De Beers, based on operating experience at the Snap Lake Mine in the NWT and the Victor Mine in Northern Ontario. The operating cost estimates use the labour classification and wage scales currently employed by Snap Lake, and much of the G&A cost estimate details were derived from actual cost data from the Snap Lake mine.

Certain sectors of the operating costs begin during the construction phase (mining, power generation, freight, and G&A) and continue through the life of the mine. All costs incurred during the construction phase have been capitalised and are part of the capital cost estimate.

The target accuracy of the operating cost estimate is -5%/+15%, which represents a Feasibility Study Budget/Class 3 Estimate. The average annual operating cost estimate and average LOM unit costs for the Gahcho Kué project are summarised in Table 1.5 in Q3 2013 Canadian dollars.

**Table 1.5: Operating Cost Estimate Summary**

WBS Description	Average Annual Cost (\$)	Average Mined (\$/t)	Average Processed (\$/t)
A Mine	98,505,321	3.49	33.24
B Process	22,118,252	0.78	7.46
C Power	17,886,381	0.63	6.04
D Freight	18,646,525	0.66	6.29
E G&A	41,701,193	1.48	14.07
F Contingency	7,198,648	0.26	2.43
G Management Fee	6,361,794	0.23	2.15
- Total	212,418,114	7.53	71.68

Note: Unit costs per tonne mined are presented against materials mined in the operational phase only. Cleaning/Sorting cost at \$0.546/ct (\$0.83/t processed) is in addition to the \$71.68/t processed (\$72.51/t processed).

## **Financial Analysis**

The financial evaluation of the project has been undertaken on an after-tax, unleveraged, real rate of return to the GK Project JV partners as a whole. The analyses assumed that three kimberlite bodies will be developed, with production on the first pipe (5034) starting in September 2016 as part of the scheduled plant ramp up. Mill feed, derived from indicated reserves with modelled carats plus limited additional material at zero carat grade (as mill feed dilution), was used in the 2014 FS. Production, including ramp up, extends over roughly 12 years. All production, costs and revenues are based on calendar fiscal years.



The project provides a real rate of return to the partners of 32.6% and a real net present value (NPV) at 10% of C\$1,004.8 M in calendar 2013 Canadian dollars, excluding all sunk costs to the end of 2013. In the scenario of including sunk costs incurred to end of 2013, the project provides a real rate of return of 21.9% and a real NPV at 10% of C\$747.3 M. In the sunk cost excluded scenario, the project is most sensitive to changes in diamond prices, with real dollar returns decreasing the IRR by 4.5% for a 10% reduction in prices and increasing the IRR by 4.2% for a 10% increase in prices. The project shows a lesser sensitivity to capital with IRR figure changing by +3.1%/-2.7% for a ±10% change in capital. The sensitivity to operating cost is ±1.4% for a ±10% change in the operating costs.

## Data Verification

JDS has reviewed Data Verification processes undertaken in the previous Technical Reports. JDS is of the opinion that the Data Verification is adequate for use in the Report. A summary of data verification from these reports is provided below. Independent data verifications were undertaken on a number of occasions between 1999 and 2012:

- o 1999, 2004, 2007 – independent consultants made site visits to review quality assurance/quality control (QA/QC)
  - o 1999 – external consultant audit of the 1999 evaluation program
  - o 2000 – geology (petrological) peer review
- o 2004 – geotechnical and hydrogeology consultants QA/QC site visit, internal and external mineral resource evaluation
- o data base audits, geology (petrological) peer review, Gemcom® three-dimensional (3D) model peer review
- o 2007 – internal and external petrological peer reviews; external verification of macro-diamond resource evaluation data set
  - o 2008 – external review of 2003 Technical Report resource estimation and density (rock density) models.
- o 2012 – peer review of updated geological models and Mineral Resource estimates; external consultant reviews of geological solid models and zonal estimate for Tuzo Deep Lower.

Resource evaluation database verification included the following:

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

Data storage and verification procedures are adequate to support the geological interpretations and mineral resource estimation. Data are stored digitally using appropriate database management software (Microsoft Access®), are being migrated into a diamond sampling workflow-based repository running on a SQL server located in Toronto, and are backed up periodically to ensure against loss of data due to failure of a single computer or hard drive. Original data are

properly stored as paper and/or digital files with appropriate backups. Most paper files were scanned and stored digitally. The project database undergoes periodic internal verification as well as periodic audits by external reviewers.

## Diamond Valuations

JDS has relied on WWW International Diamond Consultants (WWW) for diamond valuation. WWW are recognised international leaders in this field, and are the valuers to the Federal Government of Canada for the Canadian diamond mines in the Northwest Territories. This information was used in support of the financial analysis noted above. JDS has also relied on De Beers (DTC marketing division) for diamond valuation along with the WWW diamond valuations in support determining the reserves. JDS believes it is reasonable to rely on De Beers valuations, as the Diamond Trading Company (DTC) is the rough diamond distribution arm of the De Beers Companies and is the world's largest supplier of rough diamonds.

Similarly, JDS has relied on De Beers and MPV for the diamond price escalation estimate. De Beers and MPV conducted their own market analysis and determined that a 1.5% real growth rate in USD diamond prices be used in the financial analysis which has been accepted as reasonable for the current market.

For the financial analysis, the diamond prices reference a non-public report: *Re-Price & Modelling of the Average Price of Diamonds from the Gahcho Kué Diamond Project – February 2014* (WWW 24-Feb-2014), which JDS has reviewed and accepts as reasonable.

In February 2014 Mountain Province Diamonds (MPV) retained the services of WWW International Diamond Consultants (WWW) to re-price diamonds recovered from bulk sampling of the Gahcho Kué Project and update the modelled values of average price (AP = dollars per carat). WWW last valued these diamonds in April 2011 and carried out a re-pricing and re-modelling exercise in March 2012

The re-pricing and modelling exercise are based on the WWW price book as at 24 February 2014. (Non-public Report: *Re-Price & Modelling of the Average Price of Diamonds from the Gahcho Kué Diamond Project – February 2014*)

WWW valued 8,317.29 carats from four separate bulk samples in April 2011. These samples have been re-priced using WWW's proprietary price book as at 24 February 2014 giving a total value of US\$1,445,068 and a combined AP of US\$174 per carat.

These models are based on the SFD models produced by De Beers based on a 1.00mm bottom cut off, and are based on the diamond market as at 24 February 2014.

De Beers produced the SFD models from their micro-macro grade models and apply modifying factors for recovery efficiencies and bottom cut off if applicable (see description in Item 14- Mineral Resource Estimates).

The terms “minimum” and “high” have been used deliberately and are explained as follows:

- o Based on analysis of the bulk samples, WWW believes it is highly unlikely that the average price for the four zones will be lower than the minimum values shown in Table 19.1.
- o In the larger sizes the modelled values could be higher than those used in the “high” models. (i.e. the high values are not maximum values.)
- o For mine feasibility studies WWW recommends using the base case models for defining the resource/reserve. The “minimum” and “high” models are included for sensitivity analysis.

**Table 1.6: Summary of WWW February 2014 Diamond Prices**

Pipe	Sample	High Model	Model	Min Model
5034 Centre	196	167	132	114
5034 West	102	172	131	118
5034 NE	196	194	142	120
Hearne	88	137	107	97
Tuzo	298	134	101	95

o

Note: All prices in \$US/carat

The primary case for the economic analysis is based on the Model prices in \$US for 2014 as summarised in Table 19.2. To clarify the naming conventions used elsewhere and reflect the prices assigned to the pit/facie combinations referred to in the mine schedule and described/determined in the reserves section, note the following:

5034 Centre	5034-CP
5034 West	5034-WP and 5034-ST
5034 NE	5034-NE and 5034-NT
Hearne	Hearne
Tuzo	Tuzo

**Table 1.7: Summary of Diamond Prices Used in Economic Analysis**

Pit (and zone)	WWW Price
5034-CP	132.00
5034-WP	131.00
5034-NE	142.00
5034-NT	142.00
5034-ST	131.00
Hearne	107.00
Tuzo	101.00

JDS has reviewed the WWW diamond valuation report and made comparisons to the latest diamond pricing information provided by De Beers and as such, it is JDS' opinion that the WWW diamond values represent a "reasonable price level" to use as a basis for the economic analysis. Notwithstanding the "reasonable price level", JDS notes that diamond price estimates represent a viewpoint at a given point in time and may not accurately reflect realised prices over the life of the mine operation.

## **Conclusions**

The authors of the 2014 Technical Report are of the opinion that the Gahcho Kué Project is economically viable, technically credible, and environmentally sound.

The Gahcho Kué Project is economically viable, generating C\$7,720.8 M in RV (realised value) revenues over a 12-year mine life resulting in a 32.6% IRR (real rate of return) and a \$1,004.8 M NPV (net present value) at 10% excluding sunk costs of \$259.5 M incurred prior to Dec 31, 2013. Including sunk costs of the project yields a 21.9% IRR and \$747.3 M NPV. Total life of mine (LOM) capital costs are estimated at \$1,290.8 M consisting of: \$140.9 M sunk costs (pre-2011); \$118.6 M sunk costs (2011-2013); \$858.5 M initial capital; \$80.1 M working capital; and \$92.7 M sustaining and closure costs. Total LOM pre-tax cash operating costs are estimated at \$2,542.8 M, which equates to \$72.51/t processed or \$47.62/ct recovered. Operating costs incurred during the initial ramp up phase are estimated at \$81.9 M.

The Gahcho Kué Project is technically credible, utilising designs and practices that are proven in the Canadian diamond industry. The project design is based on the open pit mining of the 5034, Hearne and Tuzo deposits in a concurrent/sequential fashion (5034 and Hearne mined initially followed by Tuzo). Mine plans call for the extraction of 315 Mt of waste and 35.1 Mt of mill feed over a 15-year period (including construction/pre-production) utilising industry standard drill/blast equipment, truck/shovel equipment and pit designs that are similar to other open pit diamond mines operating in the area. The kimberlite processed includes Mineral Reserves, as well as an additional 1.2 Mt of dilution that will be processed through the mill. This added tonnage is at zero grade and does not provide any additional revenue, and is comprised of external waste at depth that is included in the pit design and is not classified as an Indicated Resource. Kimberlite will be fed to a 3.0 Mt/a processing plant with three stages of crushing, DMS, and X-ray/grease diamond recovery circuits. Process plant designs and equipment selections are based on experience from other De Beers operations and utilize proven suppliers. Security measures and designs are based on current De Beers' standards and practices.

## **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 EIR was designed to identify all of the key environmental issues that could be impacted by the development of the Gahcho Kué diamond mine and to facilitate participation by key stakeholders in addressing these issues.

The Environmental Impact Statement (EIS) for the Gahcho Kué mine was submitted to the Gahcho Kué Environmental Impact Review Panel (the "Panel") of the MVEIRB in December 2010. The EIS detailed the construction and operation of the proposed mine and was assembled to meet the rigorous Terms of Reference established by the Panel for the Gahcho Kué Project.

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 Arrangement 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 Arrangement, 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 would 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 detailed the construction and operation of the proposed mine.

On August 2, 2011, the Company announced that the Panel had informed the Gahcho Kué Project Operator, De Beers Canada that the EIS conformed to the terms of reference set by the Panel, thus clearing the way for the EIR to commence.

On January 8, 2013, the Company announced that the MVEIRB closed the public record for the Gahcho Kué environmental impact review on January 3, 2013 and that the MVEIRB is expected to complete their report by July 2013.

On July 22, 2013, De Beers and the Company announced that the MVEIRB on July 19, 2013 had concluded the Gahcho Kué Environmental Impact Assessment and had recommended approval of the proposed Gahcho Kué diamond mine subject to measures and follow-up programs. The Gahcho Kué Panel recommended, pursuant to sub-section 134(2) of the Mackenzie Valley Resource Management Act, that the development be allowed to proceed subject to implementation of the measures and follow-up programs described in its 'Report' which are necessary to prevent potentially significant adverse impacts on the environment. A full copy of the Report of Environmental Impact Review and Reasons for Decision is available at [www.reviewboard.ca](http://www.reviewboard.ca).

On October 22, 2013 Mountain Province and De Beers Canada announced that the Minister of Aboriginal Affairs and Northern Development Canada, the Hon. Bernard Valcourt, had approved the development of the Gahcho Kué diamond mine as recommended by the Mackenzie Valley Environmental Impact Review Board.

On December 2, 2013 Mountain Province and De Beers Canada announced that Mackenzie Valley Land and Water Board approved a pioneer Land Use Permit for the Gahcho Kué diamond mine. The pioneer Land Use Permit allowed land-based site works to commence in preparation for deliveries planned for the 2014 winter road season.

On August 12, 2014, De Beers and the Company announced that the Mackenzie Valley Land and Water Board has issued the Gahcho Kué Type A Land Use Permit and sent the Type A Water License for final approval to the Minister of Environment and Natural Resources of the Government of the Northwest Territories.

On September 25, 2014, De Beers and the Company announced that the Gahcho Kué Project has received approval of the Type A Water License by the Minister of Environment and Natural Resources of the Government of the Northwest Territories, the Hon. Michael J. Miltenberger.

### Project Costs to Date

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	1,612,115
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	\$ 124,143,171
Expenditures January 1, 2010 to December 31, 2010	10,810,895
Costs for Feasibility Study from January 2010 to December 2010 (of approved budget of \$10 million)	5,664,026
Total Costs to December 31, 2010	\$ 140,618,092
Expenditures January 1, 2011 to December 31, 2011	16,834,887
Costs for Feasibility Study from January 1, 2011 to December 31, 2011	466,526
Total Costs to December 31, 2011	\$ 157,919,505
Expenditures January 1, 2012 to December 31, 2012	21,796,507
Total Costs to December 31, 2012	\$ 179,716,012
Expenditures January 1, 2013 to December 31, 2013	79,849,858
Total Costs to December 31, 2013	\$ 259,565,870
Expenditures January 1, 2014 to December 31, 2014	\$ 285,835,764
Total Costs to December 31, 2014	\$ 545,401,634
Expenditures January 1, 2015 to December 31, 2015	\$ 456,642,275
Total Costs to December 31, 2015	\$ 1,002,043,909
Budget January 1, 2016 to December 31, 2016	\$ 384,478,464 <sup>(1)</sup>

<sup>1</sup> Includes ramp-up costs, sustaining capex and working capital, but excludes a 3% management fee payable to the Operator.

The Company believes that the Loan Facility of US\$370 million together with CDN\$95 million available should be sufficient to fund its proportionate share of the development of the Gahcho Kué diamond mine.

Item 4A. Unresolved Staff Comments

None

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**Item 5. Operating and Financial Review and Prospects**

**MOUNTAIN PROVINCE DIAMONDS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOR THE YEAR ENDED DECEMBER 31, 2015

This Management's Discussion and Analysis ("MD&A") of March 29, 2016 provides a review of the financial performance of Mountain Province Diamonds Inc. (the "Company" or "Mountain Province" or "MPV") and should be read in conjunction with the audited consolidated financial statements and the notes thereto as at December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013.

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

All amounts are expressed in Canadian dollars unless otherwise stated.

Technical information included in this MD&A regarding the Company's mineral property has been reviewed by Carl Verley, a Director of the Company and a Qualified Person as defined by National Instrument 43-101 - Standards of Disclosure for Mineral Properties ("NI 43-101").

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

**COMPANY OVERVIEW**

Mountain Province is a Canadian-based resource company listed on the Toronto Stock Exchange under the symbol 'MPV' and on the NASDAQ under the symbol 'MDM'. The Company's registered office and its principal place of business is 161 Bay Street, Suite 2315, P.O. Box 216, Toronto, ON, Canada, M5J 2S1. The Company through its wholly owned subsidiaries 2435572 Ontario Inc. and 2435386 Ontario Inc. holds a 49% interest in the Gahcho Kué Diamond Mine, located in the Northwest Territories of Canada. De Beers Canada Inc. ("De Beers") holds the remaining 51% interest. The Joint Arrangement between the Company and De Beers is governed by the 2009 amended and restated Joint Arrangement Agreement. The Company's primary asset is its 49% interest in the Gahcho Kué Diamond Mine, which is currently being constructed and targeted to be completed in 2016 and ramp up to first production in September 2016 and commercial production by January 2017.

The Company's strategy is to mine and sell its 49% share of the rough diamonds through a well-established and reputable diamond broker at the maximum value on the day. Mountain Province's long term view of the rough diamond market remains positive, based on its outlook for a tightening rough diamond supply and growing demand, particularly in developing markets such as China and India, resulting in real, long term price growth. In this context the Company believes it is well positioned having completed a \$95 million Rights Offering on March 31, 2015 and closed a US\$370 million Term Loan Facility ("Loan Facility") on April 7, 2015, as discussed below in 'Financing Transactions' to fund its 49% share of the remaining capital and operating costs to commercial production of the Gahcho Kué Diamond Mine. At March 29, 2016, the Company has no sources of revenue, however, overall progress of the Gacho Kué Diamond Mine is estimated to stand at 89% complete with commencement of commercial production targeted for January 2017.

## HIGHLIGHTS YEAR TO DATE

At December 31, 2015, the construction of the Gahcho Kué Diamond Mine remained on track to be completed as planned with pre-commercial production commencing in H2 2016.

At December 31, 2015, overall project progress stood at 83%. On site manpower during the month of December 2015 averaged approximately 466 workers and peaked at 610 workers.

Site wide construction continued largely to plan. Approximately 98% of the Capital and Commissioning spares have been purchased and approximately 90% of the Operational spares will have been delivered by the end of the 2016 winter road period.

The hiring schedule remains on track with 187 employees at December 31, 2015.

On April 9, 2015 the first drawdown from the US\$370 million Loan Facility discussed in 'Financing Transactions' took place with nine subsequent drawdowns. The total amount drawn from the Loan Facility at December 31, 2015 was US\$158 million and at March 29, 2016 is US\$231 million.

## GAHCHO KUÉ DIAMOND MINE

### Gahcho Kué Joint Venture Agreement

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

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

On July 3, 2009, the Company entered into an amended and restated Joint Arrangement Agreement with De Beers (jointly, the "Participants") under which:

(a) The Participants' continuing interests in the Gahcho Kué Diamond Mine will be Mountain Province 49% and De Beers 51%, except for normal dilution provisions which are applicable to both Participants. On October 2, 2014,

Mountain Province assigned its 49% interest to its wholly-owned subsidiary 2435386 Ontario Inc. to the same extent as if 2435386 Ontario Inc. had been the original party to the Joint Venture Agreement;

- (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 and operating costs;
- (d) Material strategic and operating decisions, including plans and budgets, 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 million;

- (f) The Company will repay De Beers \$58.8 million (representing 49% of the agreed sum of \$120,000,000) plus interest compounded on the outstanding amounts in settlement of the Company's share of the agreed historic sunk costs. At December 31, 2015, the following amounts remain to be settled and will not be accrued until specified milestones have been achieved:

\$10 million following the commencement of commercial production (commencement of commercial production means the first day of the calendar month following the first thirty consecutive days (excluding maintenance days) that the mine has achieved and maintained 70% of rated production specified in the Feasibility Study). This amount will be paid out of the US\$370 million Loan Facility; and



An amount of approximately \$24.4 million plus accumulated interest of approximately \$25.8 million within 18 months following commencement of commercial production, which is targeted for January 2017. At December 31, 2015, accumulated interest is approximately \$19.1 million. Accumulated interest is calculated at the prevailing LIBOR rate plus 5%. The remaining \$24.4 million plus the accumulated interest will be paid out of future cash flows.

Since these payments are contingent upon certain events occurring, and/or work being completed, they will be recorded as the payments become due.

2435386 Ontario Inc. has agreed that the Company's marketing rights under the 2009 Agreement may be diluted if the Company defaults on the remaining repayments described above, if and when such payments become due.

The 2009 Agreement's provision for consensus decision-making for material strategic and operating decisions provides the Company with joint control of the Project with De Beers.

The underlying value and recoverability of the amounts shown in the consolidated financial statements for the Company's Mineral Properties is dependent upon the ability to complete the successful construction of the mine, have access to necessary financing and future profitable production. Failure to meet the obligations for the Company's share in the Gahcho Kué Diamond Mine may lead to dilution of the interest in the Gahcho Kué Diamond Mine and may require the Company to write off costs capitalized to date.

In 2014 and 2015, the Company and De Beers signed agreements allowing the Operator to utilize De Beers' credit facilities to issue reclamation and restoration security deposits to the federal and territorial governments. In accordance with these agreements, the Company agreed to a 3% fee for the share of the security deposits issued. As at December 31, 2015, the Company's share of the security deposits issued were \$14,378,228 (2014 - \$18,133,951).

### **Gahcho Kué Independent Feasibility Study**

On April 2, 2014, the Company announced the results of the updated "*2014 Feasibility Study NI 43-101 Technical Report*" on the Gahcho Kué diamond project dated March 31, 2014. JDS and Hatch Ltd. compiled and prepared the feasibility study NI 43-101 technical report for Mountain Province.

The following are project highlights from the 2014 Feasibility Study Revision and Update for both Participants share of the Project.

· Mine operational life	12 years
· Average annual production	3 million tonnes
· Total diamond production	53.4 million carats
· Average annual diamond production	4.45 million carats
· Escalated capital cost in Canadian dollars	\$1,019 million
· Average annual production for the first three years (2017 – 2019)	5.6 million carats

Table 1 summarizes the \$1,019 million capital cost by Work Breakdown Structure (WBS).

**Table 1**

**Capital Cost Estimate by WBS**

WBS	Description	BUDGET CAD (M)	BUDGET CAD (M)
		As per Estimate	Escalation reallocated
1000	Mine Operations	188.8	197.3
2000	Site Development & Roadworks	10.3	10.6
3000	Process Facilities	134.4	140.1
4000	Utilities	48.9	50.2
5000	Ancillary Buildings	51.8	53.1
6000	Waste & Water Management	6.1	6.3
7000	Off-site Facilities	0.4	0.4
Subtotal - Direct Costs =		440.7	458.0
8000	Owner's Management Costs	100.2	104.2
9000	Indirect Costs	360.5	375.7
Subtotal – Owners + Indirect Costs =		460.7	479.9
9900	Contingency	75.6	81.1
9910	Escalation	42.0	-
Total - Projects		1,019.0	1,019.0

Table 2 below summarizes the average annual operating cost estimate and average Life of Mine unit costs for the Gahcho Kué Diamond Mine in Q3 2013 Canadian dollars. The target accuracy of the operating cost estimate is -5%/+15%, which represents a Feasibility Study Budget/Class 3 Estimate.

**Table 2**

**Operating Cost Estimate Summary in Q3 2013 Canadian dollars**

WBS	Description	Average Annual Cost (\$)	Average Mined (\$/t)	Average Processed (\$/t)
A	Mine	98,505,321	3.49	33.24
B	Process	22,118,252	0.78	7.46
C	Power	17,886,381	0.63	6.04

D	Freight	18,646,525	0.66	6.29
E	G&A	41,701,193	1.48	14.07
F	Contingency	7,198,648	0.27	2.43
G	Management Fee	6,361,794	0.23	2.15
-	Total	212,418,114	7.54	71.68

Note: Unit costs per tonne mined are presented against materials mined in the operational phase only. Cleaning/Sorting cost at \$0.546/ct (\$0.83/t processed) is in addition to the \$71.68/t processed (\$72.51/t processed). The costs indicated in table 4 below were prepared by the Operator of the Project.

### **Gahcho Kué Capital Program**

#### **Original Budget**

The budgeted escalated capital cost as per the *2014 Feasibility Study NI 43-101 Technical Report* from January 2013 to completion was \$1,019 million, excluding a management fee of 3% payable to De Beers who are not only a Participant, but also the Operator of the Project. The Company's share is \$499.3 million plus a 3% management fee of \$14.9 million.

The capital budget from inception to December 31, 2015 was \$762.9 million. During this period the Participants transferred their respective share of cash totaling \$755.6 million (excluding management fee) to the Operator, to settle the Joint Arrangement obligations. The 2014 capital program focused on completing detailed engineering design, final permitting, site preparation, construction and procurement for the 2015 winter road.

In addition to the \$762.9 million transferred by the Participants to the Operator from inception, an additional \$19.3 million (excluding management fee) was transferred by the Participants to cover negative movements of the Canadian dollar against other currencies and some minor out-of-scope changes. The additional \$9.4 million plus management fees, being the Company's share of the \$19.3 million, was provided for in the US\$370 million Loan Facility discussed below.

The capital budget for 2016 is \$255 million (excluding management fee). This amount excludes any negative movements of the Canadian dollar against other currencies and any minor out-of-scope items. The Operator is calling for approximately \$262 million from the Participants, which includes approximately \$7.3 million owing from prior years as discussed above.

The capital budget for 2017 is approximately \$1.1 million (excluding management fee). This amount excludes any negative movements of the Canadian dollar against other currencies and any minor out-of-scope items.

## **Forecast**

During the quarter ended December 31, 2015, the Operator of the Gahcho Kué Diamond Mine established through a Quantitative Risk Analysis ("QRA") that additional funding of approximately \$37.5 million may be required to complete the construction of the Gahcho Kué Diamond Mine. This amount excludes any minor out-of-scope purchases and movements in foreign exchange. Included in the \$37.5 million is \$14.7 million relating to identified capital items where costs increased against the original budget, and \$22.8 million relating to additional contingency, which may be spent in part or in whole to complete the Gahcho Kué Diamond Mine.

The Operator also estimated that an additional \$5.6 million will be required for minor out-of-scope purchases and movements in foreign exchange. The Canadian dollar moved significantly against the U.S. dollar and other currencies over the past year.

On finalizing the US\$370 million Loan Facility, the lenders agreed to fund \$10.9 million (the Company's 49% share of \$22.2 million out of the \$24.9 million relating to minor out-of-scope purchases and movements in foreign exchange) within the Facility. The Company will fund approximately \$18.4 million (49% of the additional \$37.5 million that may be required to complete to project) from the \$93.3 million Cost Overrun Reserve Account. This would represent a 3.7% variance from the Company's share of the original budget of \$1,019 million.

For the period January 1, 2016 to December 31, 2016, approximately \$384.5 million (excluding management fee) will be required by the Operator. Included in the \$384.5 million is \$262 million relating to the capital budget of \$1,019 million, \$37.5 million relating to the QRA as discussed above, \$5.6 million relating to the remaining minor out-of-scope purchases and movements in foreign exchange, ramp-up operating costs of \$56.4 million, \$631,120 for sustaining capital and advanced working capital of \$22.4 million. The Company will contribute approximately \$194.0 million, which includes a management fee of approximately \$5.7 million. Of the \$194.0 million an amount of \$173.7 million will be funded from the Loan Facility and the remaining \$20.3 million from the Cost Overrun Reserve Account.

For the period January 1, 2017 to February 28, 2017, funding of approximately \$32.6 million (excluding management fee) will be required by the Operator. Included in this amount is ramp-up operating costs of \$28.8 million, \$1.1 million for sustaining capital, \$1.2 million for working capital and the remaining \$1.5 million for original capital related costs. The Company will fund approximately \$16.5 million, which includes a management fee of approximately \$526,000, from the Loan Facility.

Table 3 below compares the original budget against the forecast.

**Table 3**

**Capital Forecast by WBS**

WBS	Description	CAD (M)	
		<b>ORIGINAL BUDGET</b>	<b>FORECAST</b>
1000	Mine Operations	197.3	244.7
2000	Site Development & Roadworks	10.6	22.2
3000	Process Facilities	140.1	157.5
4000	Utilities	50.2	56.4
5000	Ancillary Buildings	53.1	44.7
6000	Waste & Water Management	6.3	5.9
7000	Off-site Facilities	0.4	0.4
Subtotal - Direct Costs =		458.0	531.8
8000	Owner's Management Costs	104.2	102.0
9000	Indirect Costs	375.7	399.9
Subtotal – Owners + Indirect Costs =		479.9	501.9
9900	Contingency	81.1	22.8
9910	Escalation	-	-
Total - Projects		1,019.0	1,056.5
Management Reserve		-	24.9
Total – Projects and Management Reserve		1,019.0	1,081.4

**Gahcho Kué Operating Cost Forecast**

The updated average annual operating cost estimate and average Life of Mine unit costs for the Gahcho Kué Diamond Mine prepared by the Operator are summarised in Table 4 in 2015 Canadian dollars.

**Table 4**

**Operating Cost Forecast Summary in 2015 Canadian dollars**

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WBS	Description	Average Annual Cost (\$)	Average Mined (\$/t)	Average Processed (\$/t)
A	Mine	101,244,341	3.79	35.64
B	Process	21,870,142	0.82	7.67
C	Power	18,504,242	0.68	6.43
D	Freight	20,849,308	0.78	7.28
E	G&A	46,004,924	1.71	16.11
F	Contingency	-	-	-
G	Management Fee	6,503,256	0.24	2.28
H	Sorting Costs	2,657,492	0.10	0.92
-	Total	217,633,705	8.12	76.33



**Gahcho Kué Mineral Reserve**

On April 2, 2014, Mountain Province announced a Mineral Reserve estimate for the Gahcho Kué Diamond Mine. The Mineral Reserve is the Indicated Resource contained in the proposed open pit mine that can be mined and processed profitably and is scheduled for treatment in the feasibility study life of mine plan. The Gahcho Kué mineral reserve estimate is summarized in Table 5 below.

**Table 5****Gahcho Kué Mineral Reserve Estimate**

(JDS, March 2014 FS)

Pipe	Classification	Tonnes(Mt)	Grade	
			(carats per tonne)	Carats(Mct)
5034	Probable	13.4	1.74	23.2
Hearne	Probable	5.6	2.07	11.7
Tuzo	Probable	16.4	1.25	20.6
Total	Probable	35.4	1.57	* 55.5

\* Fully diluted mining grade

**Gahcho Kué Tuzo Deep Project**

Following completion of the Tuzo Deep drill program in 2012, which was managed by De Beers, an updated National Instrument (NI) 43-101 resource estimate for Tuzo Deep (Table 6 below) was prepared by Mineral Services Canada Inc. This estimate incorporates information from geological data updates completed since the previous NI 43-101 Technical Report released in 2009.

**Table 6**

Pipe	Year	Resource Classification	Volume (Mm3)	Tonnes (Mt)	Carats (Mct)	Grade (cpht)
------	------	-------------------------	--------------	-------------	--------------	--------------

Tuzo Deep 2013 Indicated	1.5	3.6	6.0	167
Tuzo Deep 2013 Inferred	3.7	8.9	14.4	161

Notes:

- 1) Mineral Resources are reported at a bottom cut-off of 1.0 mm
- 2) cpht = carats per hundred tonnes
- 3) Volume, tonnes, and carats are rounded to the nearest 100,000
- 4) Tuzo volumes and tonnes exclude 0.6Mt of a granite raft

Table 6 above reflects the updated Tuzo Deep mineral resource. There has been no change in the geological data for the Tuzo Upper, 5034 and Hearne kimberlites since the 2009 Technical Report.

Table 7 below incorporates the updated Tuzo Deep mineral resource estimate into the existing Gahcho Kué mineral resource estimate.

**Table 7**

Pipe	Resource Classification	Volume (Mm3)	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	6.6	15.8	20.8	132
	Inferred	3.7	8.9	14.4	161
Summary	Indicated	14.0	33.8	56.6	167
	Inferred	4.7	11.3	18.5	164

The updated Tuzo Deep resource estimate indicates an approximate 12% percent increase in the Gahcho Kué indicated resource from 30.2 million tonnes to 33.8 million tonnes and an approximate 88% increase in inferred resource from 6 million tonnes to 11.3 million tonnes. The diamond content of the indicated resource increased by approximately 12% from 50.5 million carats to 56.6 million carats and the diamond content of the inferred resource increased by approximately 80% from 10.3 million carats to 18.5 million carats. The reasons for these increases are the upgrading of the 300 to 360 meter zone in Tuzo from inferred resource to indicated resource and also the inclusion of the newly defined Tuzo inferred resource from a depth of 360 meters to 564 meters below surface, which was delineated during the 2011/12 Tuzo Deep drill program.

The Tuzo Deep resource update released in mid-2013 defined a resource at the Tuzo kimberlite to a depth of 560 meters, with the kimberlite remaining open to depth. A follow-up deep drilling program commenced in February 2014 to test the Tuzo kimberlite to a depth of at least 750 meters. On June 30, 2014, the Company announced the results of the 2014 Tuzo Deep drill program, which confirmed the continuation of kimberlite to a depth of more than 740 meters below surface. On March 4, 2015, the Company announced the diamond recovery results from the 2014 Tuzo Deep drill program.

Table 8 below summarizes the diamond recovery results from the 2014 Tuzo Deep drill program.

**Table 8 – Tuzo Deep Caustic Fusion Diamond Recovery Results**

Number and Weight of Diamonds According to Sieve Size Fraction (mm)													
	+0.106	+0.150	+0.212	+0.300	+0.425	+0.600	+0.850	+1.180	+1.700	+2.360	+3.350	+4.750	Totals
	-0.150	-0.212	-0.300	-0.425	-0.600	-0.850	-1.180	-1.700	-2.360	-3.350	-4.750		
Number of Diamonds	946	592	410	267	122	95	48	26	7	1	0	0	2,514
Weight (carats)	0.02	0.03	0.07	0.13	0.17	0.36	0.53	0.87	0.63	0.43	0.00	0.00	3.24

\*Total sample weight 0.434 tonnes

\*Total weight of recovered diamonds greater than 0.85mm: 2.46 carats

**\*Sample grade of diamonds greater than 0.85mm: 5.67 carats per tonne**

## Qualified Person

The Qualified Person for the updated Tuzo Deep estimate is Mr. Tom Nowicki, PhD, P Geo, a Mineral Services employee. The estimation and classification of the mineral resources conform to industry-best practices and meet the requirements of CIM (2005).

### Gahcho Kué Independent Diamond Valuation

WWW provided an updated independent valuation of the diamonds recovered from the Gahcho Kué Diamond Mine. All diamond values presented below are based on the WWW Price Book as at August 8, 2014. It is estimated that average rough diamond prices have weakened by approximately 15% since the last valuation. During the same period the Canadian dollar (the Company's functional currency) has weakened from a rate of \$1.0971/US\$1 to \$1.3840/US\$1 at December 31, 2015 or by approximately 26.15%.

Table 9 below reflects the actual price per carat for the parcel of 8,317.29 carats of diamonds recovered from the Project as of August 8, 2014.

**Table 9**

Actual Price US\$/carat				
Pipe	Zone	Total Carats	US\$/Carat	Total Dollars
5034	Centre/East Lobe	1,957.54	204	400,264
	West Lobe	1,132.14	108	122,607
Hearne		2,905.76	92	266,423
Tuzo		2,321.85	311	722,687
Total		8,317.29	<b>US\$ 182</b>	<b>\$ 1,511,981</b>

*Note: Total Dollars are the result of rounding.*

In their report 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 color 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 in the sample is a 9.90 carat stone in the 5034 C/E sample. This is a makeable stone of high color (D/E) which WWW valued at \$23,000 per carat giving a total value of \$227,700".

Besides the high-value 25.13 and 9.9 carat diamonds, several other large high-value diamonds of gem quality have been recovered from Gahcho Kué, including 7.0 carat, 6.6 carat and 5.9 carat diamonds from the 5034 kimberlite and 8.7 carat, 6.4 carat and 4.9 carat diamonds from the Hearne kimberlite. The presence of larger diamonds is an important driver of overall diamond value at Gahcho Kué. Table 10 below presents models of the August 2014 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 are likely to be recovered from future production at Gahcho Kué.

**Table 10**

Pipe	High Model	Base Model	Low Model
5034 Centre	177	139	119
5034 West	181	138	123
5034 North/East	204	149	126
Hearne	144	112	102
Tuzo	141	105	99
Average	<b>US\$ 163</b>	<b>US\$ 123</b>	<b>US\$ 113</b>

*Note: 1 mm nominal square mesh*

*Diamond values are in U.S. 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 US\$123. The WWW models use size distribution models (carats per size class) developed by De Beers.

## **Diamond Outlook**

The Global Diamond Report 2015 published by Bain & Company Inc., reported that during 2015, the diamond industry suffered the effect from the mild decline in consumer demand for diamond jewelry that started in 2014 in Greater China. That slowdown led to a notable drop in demand for polished and rough diamonds, which in turn led to price decreases for polished and rough diamonds of 12% and 23%, respectively, since May 2014 and 8% and 15%, respectively, since the beginning of 2015. The weaker-than-expected growth in customer demand initially affected demand for polished diamonds as retailers built up inventories and reduced purchases of polished diamonds. The slowdown then extended to rough-diamond producers as mid-market companies built up their inventories and reduced their purchases of rough diamonds despite declining prices. It is expected that regular circulation of diamonds through the pipeline should be restored as soon as the midmarket and retail segments clear their excess inventories.

The report indicates that the long-term outlook for the diamond market remains positive, with demand expected to outpace supply starting in 2019. Until then, the rough-diamond supply-demand balance will be tight. They expect demand for rough diamonds to recover from the recent downturn and return to a long-term growth trajectory of about 3% to 4% per year on average, relying on strong fundamentals in the U.S. and the continued growth of the middle class in India and China.

### **Gahcho Kué Diamond Mine Update**

The first blast in the quarry at the Gahcho Kué Diamond Mine occurred on December 13, 2013 and production of aggregate material for infrastructure foundations, roads and the landing strip commenced.

During February and March 2015, 2,193 truckloads, which included the diamond plant, mining equipment, construction materials, explosives and fuel was delivered to the Gahcho Kué Diamond Mine on the ice road. As at March 29, 2016, the overall project development is progressing according to plan. Construction of the Gahcho Kué Diamond Mine is targeted to be completed by H1 2016, following which commissioning of the diamond plant will commence. The Gahcho Kué Diamond Mine is targeted to be completed in 2016 with ramp up to first production by September 2016 and commercial production by January 2017.

### **Procurement Progress**

As at December 31, 2015 procurement is currently on target at 99%. During the year ended December 31, 2015 with the various equipment and construction material at site, the focus is on the close-out of the various procurement packages and managing site contracts.

Since commencing construction in December 2013, materials, equipment and services totaling \$827 million of the original \$1,019 million budget have, at December 31, 2015, been ordered and received at site, which represents approximately 81.2% of the total material, equipment and services costs for the construction of the Project.

### **Construction Progress**

On April 1, 2014, De Beers, the Operator of the Gahcho Kué Diamond Mine signed an Engineering Procurement and Construction Management Services Agreement (“Hybrid EP”) with Hatch Ltd. to construct the mine.

At December 31, 2015, overall project progress stands at 83% complete and remains on track for first production in H2 2016.

Calendar 2015 construction activities represent approximately 67% of the total execution plan, with approximately 33% of work scheduled for early 2016. No lost time incidents were recorded for the year ended December 31, 2015.

A key construction milestone achieved during the year was the commencement and completion of the principal concrete pour for the foundations of the process plant. Concrete pouring commenced during April 2015 and by the end of December 2015 approximately 11,500 cubic meters of structural concrete had been produced and poured at site. All concrete activities are now complete. At December 31, 2015 structural steel progress was 100% complete.

Measures are underway to ensure contractors meet their costs and schedules to minimize the risk of Project cost overruns. Construction of the 3 million tonnes per annum process plant facility represents the project's critical path activity. The plant building was completed and heated during October 2015, allowing the final installation of equipment, cables and instrumentation from October 2015 through to May 2016. Production is scheduled to commence during H2 2016 with a four month ramp-up to commercial production by the end of January 2017. The project remains on schedule to achieve these milestones.

The project's accommodation and administration facilities were completed during 2014 and temporary accommodation to accommodate the peak construction staff was completed in May 2015. The Camp occupancy was at 466 personnel at December 31, 2015 but went over 609 during the month. The Camp capacity for single occupancy is 478. Double-occupancy began in August 2015 and will continue through March 2016.



## **Gahcho Kué Capital Cost Summary**

At December 31, 2015, the Operator of the Gahcho Kué Diamond Mine issued purchase orders of \$962 million of the approved \$1,019 million budget. As mentioned above approximately \$827 million of materials, equipment and services had been received leaving a balance of approximately \$135 million of the remaining commitments to be received or incurred. Based on the approved budget, approximately \$57 million remains uncommitted or \$94.5 million against the \$1,056.5 forecast (before out-of-scope items and foreign exchange). These orders will be placed from January 2016 to completion.

## **FINANCING TRANSACTIONS DURING 2015**

### **Equity**

On March 31, 2015, the Company announced the successful completion of a \$95 million rights offering (the “Offering”). A total of 135,204,550 rights were exercised for 23,761,783 common shares.

Under the terms of the Offering, every 5.69 Rights entitled the holder thereof to purchase one common share at a subscription price of \$4.00 per common Share. The subscription price of \$4.00 per common share was equal to a discount of approximately 16% from the volume weighted average trading price of the common shares on the TSX for the 5 day period ending on February 17, 2015.

Mr. Dermot Desmond, an insider of the Company and principal owner of Bottin (International) Investments Ltd. (“Bottin”), provided a standby guarantee to the Company whereby he agreed to purchase any rights not otherwise subscribed for by shareholders. Mr. Desmond received a standby fee of 3%, which following shareholder approval at the Annual Special Meeting held on June 16, 2015 was settled through the issuance on June 25, 2015 of 712,500 common shares of the Company.

### **Loan Facility**

On April 2, 2015, the Company through its subsidiary, 2435572 Ontario Inc. entered into a Loan Facility of US\$370 million with a syndicate of lenders led by Natixis S.A., Scotiabank and Nedbank Ltd. and including ING Capital LLC,

Export Development Canada and the Bank of Montreal. On April 29, 2015, Société Générale joined the lender syndicate. The Lenders hold security over the Company's 49% interest in the Gahcho Kué Diamond Mine held through the Company's subsidiaries. The term of the Loan Facility is seven years and the interest rate is U.S. dollar LIBOR plus 5.5 percent. The Loan Facility has a drawdown schedule that commenced on April 7, 2015 and ends on March 31, 2017 to correspond with the projected construction period. When the Company reaches the earlier of commercial production or September 30, 2017, it will be subject to certain financial and insurance covenants. The Company would be subject to certain financial and insurance covenants in certain special scenarios including the event of default.

Drawdowns under the Loan Facility are subject to certain conditions, including approval of a quarterly cost to complete report prepared by an independent technical consultant. The Company has funded a Cost Overrun Reserve Account, which is restricted to fund potential cost overruns of the project, and use of this account must be approved by the lenders. A cost to complete shortfall would exist if available funding remaining under the Loan Facility is less than the projected costs to completion of the project. Such shortfall would represent a cost overrun. If the Lenders are satisfied that the cost overrun can be funded with amounts in the Cost Overrun Reserve Account then no event of default would have occurred, and the lenders would approve further drawdown against the Loan Facility. If the available resources under the Loan Facility plus the Cost Overrun Reserve Account were insufficient to fund the project to completion, additional funding would be required and no amounts would be available to be drawn until such shortfall was remedied.

The Loan Facility will be used to fund the Company's share of the remaining construction cost of the Gahcho Kué Diamond Mine, associated fees, operating costs during the build-up to commercial production, general and administrative costs, interest costs and repayment of \$10 million of sunk costs, which becomes payable to De Beers Canada on achievement of commercial production, targeted in January 2017. At March 29, 2016, the Company had drawn US\$231 million against the US\$370 million Loan Facility.

Included in the US\$370 million Loan Facility is an amount of \$10.9 million Canadian dollars (49% of the \$22.2 million as discussed above), which on April 7, 2015 was provided for by the Lenders to take into account the negative movement of the Canadian dollar against various currencies and some other minor out-of-scope items.

The terms of the Loan Facility required the Company to arrange a US\$75 million cost overrun facility or maintain funds in a restricted cost overrun account. On April 8, 2015, the Company deposited \$93,345,000 into a restricted cost overrun account in 2435572 Ontario Inc. At December 31, 2015, \$451,087 has been used to fund some minor out-of-scope items approved by the Joint Venture Management Committee. As at December 31, 2015, interest totaling \$627,435 has been earned in the restricted cost overrun account.

On April 7, 2015, the Company entered into U.S. dollar interest rate swaps (“IRS”) to manage interest rate risk associated with the U.S. dollar variable rate Loan Facility (Note 9) and entered into foreign currency forward strip contracts to mitigate the risk that a devaluation of the U.S. dollar against the Canadian dollar would reduce the Canadian dollar equivalent to the U.S. dollar Loan Facility and the Company would not have sufficient Canadian dollar funds to develop the Gahcho Kué Diamond Mine. On July 10, 2015, the Company entered into additional foreign currency forward strip contracts from August 4, 2015 to February 1, 2017. The interest rate swaps and forward strip contracts are secured on an equal basis with the Loan Facility and documented in the form of International Swaps Derivatives Association Master agreements.

These derivatives have been classified as “non-hedge derivatives”. Changes in the fair value of the IRS and foreign currency forward strip contracts are recognized in the Statement of Comprehensive Loss as gains or losses on derivatives.

### ***Interest Rate Swap Contracts***

The Company has entered into U.S. dollar floating-to-fixed interest rate swaps intended to economically fix the interest rate on 75% of the outstanding principal of the balance of the Loan Facility based on the forecast loan drawdown schedule up to a maximum of US\$277 million. The interest rate swaps terminate on March 31, 2020. The Company will pay a fixed rate of 1.827% and will receive a variable rate based on the 3 month LIBOR forward curve, reset quarterly. Payments are settled on a quarterly basis in March, June, September, and December of each year.

The table below provides a summary of the interest rate swap contracts outstanding as at December 31, 2015:

Period of Interest Rate Contracts	Notional Amount (USD)
January 1, 2016 to December 31, 2016	\$ 224,693,146
January 1, 2017 to December 1, 2017	277,500,000
January 1, 2018 to December 31, 2018	161,932,194
January 1, 2019 to December 31, 2019	41,995,998
January 1, 2020 to March 31, 2020	5,877,827

### *Foreign Currency Forward Strip*

On April 7, 2015, the Company executed foreign currency forward strip contracts to buy Canadian dollars and sell U.S. dollars for the period from April 7, 2015 to February 1, 2017 for notional amounts of \$219,125,894 or US\$175,666,949, with a weighted average price of \$1.2474/US\$1 and on July 10, 2015, the Company executed foreign currency forward strip contracts to buy Canadian dollars and sell U.S. dollars for the period from August 4, 2015 to February 1, 2017 for notional amounts of \$54,832,365 or US\$43,130,678, with a weighted average price of \$1.27131/US\$1. At December 31, 2015 notional amounts of \$132,925,735 or US\$106,299,141 had been executed against the strip contracts.

The table below provides a summary of currency contracts outstanding as at December 31, 2015:

Period of Currency Contracts	Notional Amount (CAD)	Weighted Average Price (USD)	Notional Amount (USD)
January 1, 2016 to December 31, 2016	\$ 130,485,120	\$ 1.2544	\$ 104,024,890
January 1, 2017 to February 1, 2017	10,547,404	1.2447	8,473,595
	\$ 141,032,524	\$ 1.2536	\$ 112,498,485

At December 31, 2015, US\$158 million (\$218,672,000 Canadian) was outstanding under the Loan Facility using an exchange rate of \$1.3840/US\$1. The loan is carried at amortized cost on the balance sheet.

As at December 31, 2015, financing costs totaling \$29,181,602 consisting primarily of fees payable to the lenders, legal and financial advisory fees, other financing related expenses and commitment fees relating to the Loan Facility have been deferred. The loan has been reduced by a pro-rata portion of the deferred financing costs relative to what has been drawn to date, which is being amortized over the life of the Loan Facility using the effective interest method. The resulting balance of financing costs as at December 31, 2015 is \$13,891,403 (December 31, 2014 - \$2,570,914) and will be allocated to future drawdowns and amortized over the life of the Loan Facility using the effective interest rate method.

Of the US\$158 million drawn at December 31, 2015, US\$127.0 million was used for capital related costs, US\$30.3 million for costs listed below and the remainder of approximately US\$0.7 million for funds held in restricted accounts discussed below.

US\$13.4 million paid to the lenders for fees and various agency roles;  
 US\$4.1 million used to fund various legal, advisory fees and other financing and related expenses incurred to arrange the Loan Facility;  
 US\$2.7 million used to fund general and administration costs;  
 US\$10.1 million interest and commitment fees.

At December 31, 2015, the Company had US\$374,277 in the restricted U.S. dollar proceeds account and \$472,672 or US\$341,526 equivalent of in the restricted Canadian dollar proceeds account. These amounts are restricted to the Project and related expenditure and may only be released on completion of utilization requests approved by the Facility Agent.

The following table shows the expected repayment schedule for the Loan Facility, assuming the entire US\$370 million is drawn:

Year	Principal repayment
2017	US\$ 24,791,085
2018	93,845,271
2019	100,948,191
2020	46,778,076
2021	63,039,904
2022	40,597,473
Total	US\$ 370,000,000

### **Results of operations**

The expenditures directly attributable to the development of the Gahcho Kué Diamond Mine are capitalized. The total original budgeted cost to construct the mine was \$1,019 million (excludes exchange rate movement, out-of-scope purchases and adjustments resulting from the QRA as discussed above). The revised forecast is \$1,081.4 million as discussed above.

Management believes that the Company's cash resources and Loan Facility will enable it to fund its share of the remaining construction costs of the Gahcho Kué Diamond Mine and does not expect to raise additional cash. The Company currently does not generate cash from operations.

### Selected Annual information

	December 31, 2015	December 31, 2014	December 31, 2013
Interest income	\$ 1,130,419	\$ 458,659	\$ 355,428
Management fees	90,000	90,000	152,500
Operating expenses	(6,316,576 )	(4,726,839 )	(27,087,984 )
Other expenses	(38,072,814 )	(214,211 )	(23,882 )
Net loss for the period	(43,168,971 )	(4,394,079 )	(26,603,938 )
Basic and diluted loss per share	(0.28 )	(0.04 )	(0.28 )
Cash flow from operating activities	(4,243,550 )	(6,547,129 )	(32,619,536 )
Cash, end of year	9,081,791	3,779,907	11,344,472
Total assets	582,848,108	300,994,512	110,367,203
Long-term liabilities	230,226,813	7,996,825	5,224,662
Dividend declared	Nil	Nil	Nil

### FINANCIAL REVIEW

#### *Three months and year ended December 31, 2015 compared to the three months and year ended December 31, 2014*

For the three months ended December 31, 2015, the Company recorded a net loss of \$10,247,682 or \$0.06 per share, compared to \$458,431 net loss or \$0.00 per share for the three months ended December 31, 2014. For the year ended December 31, 2015, the Company recorded a net loss of \$43,168,971 or \$0.28 per share, compared to \$4,394,079 net loss or \$0.04 per share for the year ended December 31, 2014. For the year ended December 31, 2015 stock based compensation of \$2,268,263 was incurred, compared to \$316,018 and derivative loss of \$17,241,753 was incurred compared to \$Nil for the same period in 2014.

#### *Three months and year ended December 31, 2014 compared to the three months and year ended December 31, 2013*

For the three months ended December 31, 2014, the Company recorded a net loss of \$458,431 or \$0.00 per share, compared to \$6,839,466 net loss or \$0.07 per share for the three months ended December 31, 2013. For the year ended December 31, 2014, the Company recorded a net loss of \$4,394,079 or \$0.04 per share, compared to \$26,603,938 net loss or \$0.28 per share for the year ended December 31, 2013.





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

## SUMMARY OF QUARTERLY RESULTS

**Table 1 - Quarterly Financial Data**

	December 31 2015 \$	Three months ended		
		September 30 2015 \$	June 30 2015 \$	March 31 2015 \$
<b>Earnings and Cash Flow</b>				
Interest income	457,389	241,928	297,166	133,936
Operating expenses	(2,367,544 )	(676,617 )	(2,588,372 )	(684,043 )
Net loss for the period	(10,247,682 )	(26,590,291 )	(5,760,241 )	(570,757 )
Basic and diluted loss per share	(0.06 )	(0.17 )	(0.04 )	(0.00 )
Cash flow from operating activities	(1,591,933 )	(369,311 )	(1,586,871 )	(695,435 )
Cash flow from investing activities	(57,622,213 )	(23,496,193 )	(186,756,514 )	12,127,757
Cash flow from financing activities	36,315,623	32,484,728	104,313,186	92,076,884
<b>Balance Sheet</b>				
Total assets	582,848,108	553,299,200	510,358,416	409,428,267

	December 31 2014 \$	Three months ended		
		September 30 2014 \$	June 30 2014 \$	March 31 2014 \$
<b>Earnings and Cash Flow</b>				
Interest income	260,229	97,195	41,746	59,489
Operating expenses	(658,851 )	(1,011,609 )	(1,734,587 )	(1,231,792 )
Net loss for the period	(458,431 )	(965,881 )	(1,743,911 )	(1,225,856 )
Basic and diluted loss per share	(0.00 )	(0.01 )	(0.02 )	(0.01 )
Cash flow from operating activities	(4,387,710 )	(1,061,639 )	5,048,459	(8,457,794 )
Cash flow from investing activities	(100,645,017)	(14,145,955 )	(54,118,175 )	4,184,666
Cash flow from financing activities	94,767,451	(50,172 )	50,266,368	21,034,953
<b>Balance Sheet</b>				
Total assets	300,994,512	200,818,322	185,200,584	153,622,916

## COSTS AND EXPENSES

*The costs and expenses for the three months and years ended December 31, 2015, December 31, 2014 and December 31, 2013 are comparable except for the following:*

**Consulting fees**

Consulting fees for the three months ended December 31, 2015, 2014 and 2013 respectively were \$1,727,384, \$538,171 and \$509,589. For the years ended December 31, 2015, 2014, and 2013 consulting fees respectively were \$4,123,689, \$1,550,392 and \$2,527,607. Included in these amounts for the years ended December 31, 2015, 2014 and 2013 respectively were \$2,268,263, \$316,018 and \$1,240,821 relating to stock based compensation.

### **Exploration and evaluation expenses**

Exploration and evaluation expenses for the three months ended December 31, 2015, 2014 and 2013 respectively were \$6,463, (\$179,813) and \$5,456,405. For the years ended December 31, 2015, 2014 and 2013 exploration and evaluation expenses respectively were \$32,001, \$1,508,329 and \$21,837,083. The decrease from 2015 compared to 2014 and 2013 are as a result of all Gahcho Kué development costs being capitalized, effective December 31, 2013.

### **Gahcho Kué Project management fees**

Gahcho Kué Project management fees for the three months ended December 31, 2015, 2014 and 2013 respectively were \$Nil, \$Nil and \$460,104. For the years ended December 31, 2015, 2014 and 2013 Gahcho Kué Project management fees respectively were \$Nil, \$Nil and \$1,113,848. The decrease for the same period in 2015 and 2014 is as a result of all Gahcho Kué development costs being capitalized, effective December 31, 2013.

### **Office and administration**

Office and administration expenses for the three months ended December 31, 2015, 2014 and 2013 respectively were \$133,340, \$98,462 and \$69,004. For the years ended December 31, 2015, 2014 and 2013 office and administration respectively were \$499,676, \$385,326 and \$318,735. Insurance and other costs have increased during 2015.

### **Professional fees**

Professional fees for the three months ended December 31, 2015, 2014 and 2013 respectively were \$309,582, \$118,738 and \$74,115. For the years ended December 31, 2015, 2014 and 2013 professional fees respectively were \$678,842, \$423,752 and \$344,701. The increase in 2015 compared to 2014 relates to various legal and audit related matters.

### **Transfer agent and regulatory fees**

Transfer agent and regulatory fees for the three months ended December 31, 2015, 2014 and 2013 respectively were \$63,655, \$42,778 and \$36,819. For the years ended December 31, 2015, 2014 and 2013 transfer agent and regulatory fees respectively were \$408,834, \$232,772 and \$180,412. At the end of 2014, the Company listed on the NASDAQ which resulted in an increase in listing fees and additional fees relating to the amendment of the stock option plan.

### **Interest income**

Interest income for the three months ended December 31, 2015, 2014 and 2013 respectively were \$457,389, \$260,229 and \$60,810. For the years ended December 31, 2015, 2014 and 2013 interest income respectively were \$1,130,419, \$458,659 and \$355,428. The increase in 2015 is as a result of a higher interest rate being obtained on a higher balance (cost overrun account of approximately \$93 million) than in 2014.

### **Derivative loss**

Derivative loss for the three months ended December 31, 2015, 2014 and 2013 respectively were \$991,720, \$Nil and \$Nil. For the years ended December 31, 2015, 2014 and 2013 derivative loss respectively were \$19,408,350, \$Nil and \$Nil. In 2015, foreign exchange and interest rate swap contracts were entered into on April 7, 2015 and on July 10, 2015 additional foreign exchange contracts were executed.

### **Foreign exchange loss**

Foreign exchange loss for the three months ended December 31, 2015, 2014 and 2013 respectively were \$7,296,986 \$Nil and \$Nil. For the years ended December 31, 2015, 2014 and 2013 foreign exchange loss respectively were \$18,224,300, \$Nil and \$Nil. The increase in 2015 is a result the translation of the Loan Facility and U.S. dollar cash balances at the spot rate at the year end.

## **INCOME AND RESOURCE TAXES**

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

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

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

## **FINANCIAL POSITION AND LIQUIDITY**

The Company is in the process of developing the Gahcho Kué Diamond Mine in conjunction with De Beers. The underlying value and recoverability of the amounts shown as "Property and Equipment" are dependent upon the successful development and commissioning, and upon future profitable production and proceeds from disposition of the Company's mineral properties. Failure to meet the obligations for the Company's share in the Gahcho Kué Diamond Mine may lead to dilution of the interest in the Gahcho Kué Diamond Mine and may require the Company to write off costs capitalized to date. As discussed above the Company believes it has arranged the necessary financing to fund its remaining share of the construction costs of the Gahcho Kué Diamond Mine and does not believe that it will require additional funding. The Company currently has no source of revenue.

Cash flow used in operating activities, including change in non-cash working capital for the years ended December 31, 2015, 2014 and 2013 respectively were \$4,243,550, \$8,858,684 and \$32,619,536. The decrease in cash flow in 2015 and 2014 is a result of changes in non-cash operating working capital.

Investing activities for the years ended December 31, 2015, 2014 and 2013 respectively were (\$255,747,331), (\$164,724,481) and \$14,322,371. For the years ended December 31, 2015, 2014 and 2013 respectively, the outflow for the purchase of equipment and the capitalization of expenditures directly related to the development of the Gahcho Kué Diamond Mine were \$239,795,590, \$112,267,464 and \$9,108,832. Development activity has been increasing steadily since December 2013 when the Mackenzie Valley Land and Water Board approved a pioneer Land Use Permit for the Gahcho Kué Diamond Mine, which allowed land-based site works to commence. Cash flows used in

investing activities for December 31, 2015 include \$94,512,019 in restricted cash, \$239,795,590 in property and equipment and offset by \$77,261,842 redemption of short-term investments. In 2014, \$112,267,464 was used for property and equipment and the purchase of \$52,918,620 in short-term investments. In 2013, \$9,108,832 was used for property and equipment and the redemption of \$23,075,775 in short-term investments.

Financing activities for the years ended December 31, 2015, 2014 and 2013 respectively were \$265,190,421, \$166,018,600 and \$29,366,941. Cash flows from financing activities for the year ended December 31, 2015 relate to cash draws of US\$158 million or approximately \$200 million Canadian dollar equivalent (foreign exchange contract rates and spot rates) from April 9, 2015 to December 31, 2015 from the Loan Facility, net of financing costs, approximately \$27.7 million used in payment of financing costs, and approximately \$95 million from a Rights Offering whereby 23,761,783 shares were issued at a price of \$4.00.

Comparatively, in 2014, the Company closed a bought-deal private placement and a non-brokered private placement for common shares for gross proceeds of \$28,244,672. The Company issued 5,538,171 common shares at a price of \$5.10 per share. Transaction costs in the amount of \$1,058,942 were paid in relation to the bought-deal and non-brokered private placements and other share issuance costs of \$150,775 were incurred in connection with the bought-deal and non-brokered private placements. On September 28, 2014, the Company closed a non-brokered private placement for common shares for gross proceeds of \$45,525,140. The Company issued 9,105,028 common shares at a price of \$5.00 per share. Transaction costs in the amount of \$755,250 were incurred in relation to the non-brokered private placement which included 60,000 common shares at a price of \$5.00 per share which were issued subsequent to the quarter end and other share issuance costs of \$269,799 which were incurred in connection with the non-brokered private placement.

For the year ended December 31, 2013, the Company closed a non-brokered private placement of common shares for gross proceeds of \$29,446,000. The Company issued 5,889,200 common shares at a price of \$5.00 per share. Transaction costs in the amount of \$567,330 were paid in relation to the private placement and share issuance costs of \$71,169 were incurred in connection with the private placement.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **FINANCIAL INSTRUMENTS RISKS**

The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk, foreign currency risk and interest rate risk.

#### **Credit risk**

Credit risk is the risk of a loss associated with counterparty's inability to fulfill its contractual payment obligations. The Company's financial assets are primarily composed of cash and restricted cash. To mitigate exposure to credit risk, the Company has adopted strict investment policies, which prohibit any equity or money market investments. All of the Company's cash and restricted cash are held with reputable financial institutions. The Company believes it has no significant credit risk.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. Additional funds from the Loan Facility (Note 9) will be required to fund its share of the construction of the Gahcho Kué Diamond Mine. The Company's approach to managing liquidity risk is to monitor forecast cash flows so that it will have sufficient liquidity to meet liabilities when due. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its ongoing requirements. The Company coordinates this planning and budgeting process with its financing activities through its capital management process. Drawdowns under the Loan Facility are subject to certain conditions, including approval of a quarterly cost to

complete report prepared by an independent technical consultant.

### Foreign currency risk

The Company is exposed to financial risk related to foreign exchange rates. The Company operates in Canada and has foreign currency exposure to transactions in U.S. dollars. The majority of development costs of the Gahcho Kué Diamond Mine will be in Canadian dollars, but funded through the U.S. dollar Loan Facility. The Company has entered into foreign currency forward strip contracts to mitigate the risk that a devaluation of the U.S. dollar against the Canadian dollar would reduce the Canadian dollar equivalent to the U.S. dollar Loan Facility and the Company would not have sufficient Canadian dollar funds to develop the Gahcho Kué Diamond Mine. The foreign currency forward strip contracts increase the exposure to financial risk related to foreign exchange rates. Currency risk relates to the U.S. dollar Loan Facility, foreign currency forward strip contracts and cash and restricted cash denominated in U.S. dollar.

As at December 31, 2015, the Company had cash and restricted cash, derivative liabilities and the Loan Facility that are in U.S. dollars.

Cash	\$2,400,000
Restricted cash	500,000
Derivative liabilities	(17,200,000 )
Loan facility	(218,700,000 )
Total	\$ (233,000,000)

A 10% appreciation or depreciation of the Canadian dollar relative to the U.S. dollar at December 31, 2015 would have resulted in an increase or decrease to net loss of approximately \$23.3 million.



## Interest rate risk

The Company is exposed to interest rate risk on its outstanding borrowings, interest rate swap contracts and short-term investments. The Company has entered into interest rate swaps to fix its interest rate exposure for 75% of its U.S. dollar Loan Facility and therefore has interest rate exposure to the remaining 25%. As at December 31, 2015, the total Loan Facility drawn was US\$158 million and interest rate swaps of US\$117.7 million are currently in effect.

At December 31, 2015, a 100 basis point increase in the LIBOR interest rate for the 75% interest rate swap portion would have resulted in a decrease to interest by approximately \$9.96 million. A 100 basis point decrease in the LIBOR interest rate for the 75% interest rate swap portion would have resulted in an increase to interest by approximately \$10.15 million.

At December 31, 2015, a 100 basis point increase in LIBOR interest rate for the 25% floating portion would have resulted in an increase to interest by approximately \$53,100. A 100 basis point decrease in LIBOR interest rate for the 25% floating portion would have resulted in a decrease to interest by approximately \$53,100.

## SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's unaudited condensed consolidated interim financial statements requires management to make judgments, 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 unaudited condensed consolidated interim 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.

### i) Significant Judgments in Applying Accounting Policies

The areas which require management to make significant judgments in applying the Company's accounting policies in determining carrying values include, but are not limited to:

*a) Impairment analysis – mineral properties*

As required under IAS 36 – Impairment of Assets (“IAS 36”), the Company reviews its mineral properties for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. The Company is required to make certain judgments in assessing indicators of impairment. The Company’s assessment is that as at December 31, 2015, 2014 and 2013 no indicator of an impairment in the carrying value of its mineral properties had occurred.

ii) Significant Accounting Estimates and Assumptions

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

*a) Mineral reserves and resources*

Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical inferences drawn from drilling and other data, and require estimates of future price for the commodity and future cost of operations. The mineral reserve and resources are subject to uncertainty and actual results may vary from these estimates. Results from drilling, testing and production, as well as material changes in commodity prices and operating costs subsequent to the date of the estimate, may justify revision of such estimates. Changes in the proven and probable mineral reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of the properties.

*b) Provision for decommissioning and restoration*

The decommissioning and restoration liability and the accretion recorded are based on estimates of future cash flows, discount rates, and assumptions regarding timing. The estimates are subject to change and the actual costs for the decommissioning and restoration liability may change significantly.

*c) Stock options*

The stock option pricing model requires the input of highly subjective assumptions including the expected life and volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

*d)*

*Deferred taxes*

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unused losses carried forward, and are measured using the substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, including forecasts, it is probable that they will be realized. The Company has not recorded the benefit of tax losses or deductible temporary differences.

## **STANDARDS AND AMENDMENTS TO EXISTING STANDARDS**

At the date of preparation of this MD&A, certain new standards and amendments 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 standards will be adopted by the Company in the first period beginning after the effective date of the standard. Information on new standards and amendments that are expected to be relevant to the Company's financial statements is provided below.

### **Financial instruments**

In July 2014, the IASB issued the final version of International Financial Reporting Standard 9, Financial Instruments ("IFRS 9"), bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 is annual periods beginning on or after January 1, 2018, with early adoption permitted. We are currently assessing the impact of adopting IFRS 9 on the consolidated financial statements along with timing of adoption of IFRS 9.

### **Leases**

On January 13, 2016, the IASB issued International Financial Reporting Standard 16, Leases ("IFRS 16"). The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The new standard is effective for years beginning on or after January 1, 2019. The Company is currently assessing the impact of IFRS 16.

## **RELATED PARTY TRANSACTIONS**

The Company's related parties include the operator of the Gahcho Kué Diamond Mine, Dermot Desmond, Bottin, key management and their close family members, and the Company's directors. Kennady Diamonds Inc. ("Kennady Diamonds") is also a related party since the Company and Kennady Diamonds have common members of key management.

Related party transactions are recorded at their exchange amount, being the amount agreed to by the parties. Outstanding balances are settled in cash.

The Company had the following transactions and balances with its related parties including key management personnel and the Company's directors, Dermot Desmond, Bottin, the operator of the Gahcho Kué Diamond Mine, and Kennady Diamonds. The transactions with key management personnel are in the nature of remuneration. The transactions with the operator of the Gahcho Kué Diamond Mine relate to the funding of the Company's interest in the Gahcho Kué Diamond Mine for the current year's expenditures, capital additions and management fee. The transactions with Kennady Diamonds are for a monthly management fee charged by the Company and reimbursement of expenses paid on behalf of Kennady Diamonds.

As discussed in Note 11, the Company issued 712,500 common shares or the equivalent of \$2,850,000 to Mr. Dermot Desmond as a standby fee.

The balances as at December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Payable to the operator of the Gahcho Kué Diamond Mine*	\$ 1,210,408	\$ 1,345,183
Receivable from Kennady Diamonds	8,475	-
Payable to key management personnel	-	398,895

\*included in accounts payable and accrued liabilities

The transactions for the years ended December 31, 2015, 2014 and 2013 were as follows:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
The total of the transactions:			
Kennady Diamonds	\$ 90,000	\$ 90,000	\$ 152,500
Remuneration to key management personnel	3,843,355	1,426,256	2,457,759
Management fee charged by the operator of the Gahcho Kué Diamond Mine	6,522,109	4,067,683	1,113,848

The remuneration expense of directors and other members of key management personnel for the years ended December 31, 2015, 2014 and 2013 were as follows:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Consulting fees, director fees, bonus and other short-term benefits	\$ 1,575,092	\$ 1,110,238	\$ 1,216,938
Share-based payments	2,268,263	316,018	1,240,821
	\$ 3,843,355	\$ 1,426,256	\$ 2,457,759

In accordance with International Accounting Standard 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.

## **CONTRACTUAL OBLIGATIONS**

The Company has consulting agreements with the President and CEO and the VP Finance, CFO and Corporate Secretary for their services in these capacities.

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

	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
Operating lease obligations	\$ 142,256	\$ 11,855	\$-	\$-	\$ 154,111
Gahcho Kué Diamond Mine commitments	66,169,607	-	-	-	66,169,607
Trade and other payables	28,193,849	-	-	-	28,193,849
Loan facility - Principal	-	164,192,718	54,479,282	-	218,672,000
Loan facility - Interest	15,670,300	26,084,400	1,398,300	-	43,153,000
Interest Rate Swap Contracts:					
Outflows	2,628,750	1,227,392	(289,119 )	(7,286)	3,559,737
Forward Exchange Contracts*:					
(Inflows)	(130,485,120 )	(10,547,404 )	-	-	(141,032,524 )
Outflows	143,970,448	11,727,455	-	-	155,697,903
	\$ 126,290,090	\$ 192,696,416	\$ 55,588,463	\$(7,286)	\$ 374,567,683

\*The foreign exchange contracts inflows and outflows have been signed with the syndicate of lenders. In the scenario where one or more of these lenders are unable to pay, the Company could be exposed to the outflow of agreed upon funds for the remaining contracts at that time. Any offsetting would be at the discretion of the lenders. The Company believes it has no significant credit risk.

## Other Management Discussion and Analysis Requirements

### Risks

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

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

§ risk that the development of the mine will not be consistent with the Company's expectation;  
 § risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral  
 § deposits;

results of initial feasibility, pre-feasibility and feasibility studies, and the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; mining exploration risks, including risks related to accidents, equipment breakdowns or other unanticipated difficulties with or interruptions in production;

§ risks related to foreign exchange fluctuations and prices of diamonds;

§ risks related to commodity price fluctuations;

§ the uncertainty of profitability based upon the Company's history of losses;

§ risks related to failure of its joint venture partner to continue to obtain adequate financing on a timely basis and particularly given recent volatility in the global financial markets;

§ development and production risks including and particularly risks for weather conducive to the building and use of the Tibbitt to Contwoyto Winter Road;

§ risks related to environmental regulation, permitting and liability;

§ risks related to legal challenges to construction and/or operating permits that are approved and/or issued;

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

§ the ability to develop and operate the Company's Gahcho Kué Diamond Mine on an economic basis and in accordance with applicable timelines;



§ aboriginal rights and title;  
§ failure of plant, equipment, processes and transportation services to operate as anticipated;  
§ possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities,  
§ land titles, and social and political developments, and other risks of the mining industry; and  
§ other risks and uncertainties related to the Company's prospects, properties and business strategy.

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

### **Disclosure of Corporate Governance Practices**

Amendments to National Instrument 58-101 *Corporate Governance Disclosure* adopted by the Ontario Securities Commission on December 31, 2014 provide for the disclosure of the following matters on an annual basis:

- policies regarding the representation of women on the board,
- the board's or nominating committee's consideration of the representation of women in the director identification and selection process,
- the Company's consideration of the representation of women in executive officer positions when making executive officer appointments,
- targets regarding the representation of women on the board and in executive officer positions, and
- the number of women on the board and in executive officer positions.

The Company's information circular dated May 21, 2015 for the annual special and general meeting of shareholders inadvertently did not include this disclosure.

### **Policies Regarding the Representation of Women on the Board**

*Disclose whether the Company has adopted a written policy relating to the identification and nomination of women Directors. If the Company has not adopted such a policy, disclose why it has not done so.*

The Board has not adopted a written policy relating to the identification and nomination of women directors. The directors of the Corporation have a fiduciary duty to act in the best interests of the Corporation. As part of that duty, the Board believes that it should be able to select and nominate for election or appointment as directors those individuals who will best serve the interests of the Corporation, regardless of gender, race, creed or gender identity. The Board believes that implementing such a policy will potentially restrict the Board's ability to select those individuals that will best serve the interests of the Corporation.

**Consideration of Women in the Director Identification and Selection Process**

*Disclose whether and, if so, how the Board or nominating committee considers the level of representation of women on the Board in identifying and nominating candidates for election or re-election to the Board. If the Company does not consider the level of representation of women on the Board in identifying and nominating candidates for election or re-election to the Board, disclose the Company's reasons for not doing so.*

The Board considers the level of representation of women on the board in identifying and nominating candidates for the appointment or election to the Board. In identifying and nominating candidates for election or appointment to the Board, the Board considers various factors, including, but not limited to: (i) the individual merits of each potential candidate, including their skills, education, background, experience and any previous contributions to the Corporation; (ii) the number and qualities of potential candidates and whether any such candidates are women; (iii) the current composition of the Board; and (iv) the needs of the Corporation. The ultimate selection will be based on serving the best interests of the Corporation.

### **Consideration Given to the Representation of Women in Executive Officer Appointments**

*Disclose whether and, if so, how the Company considers the level of representation of women in executive officer positions when making executive officer appointments. If the Company does not consider the level of representation of women in executive officer positions when making executive officer appointments, disclose the Company's reasons for not doing so.*

The Corporation considers the level of representation of women in executive officer positions when making executive officer appointments. In making executive officer appointments, the Corporation considers various factors, including, but not limited to: (i) the merits of each potential candidate, including their skills, education, background, experience and any previous contributions to the Corporation; (ii) the number and qualities of potential candidates and whether any such candidates are women; (iii) the composition of the executive officers; and (iv) the needs of the Corporation. The ultimate selection will be based on serving the best interests of the Corporation.

### **Company's Targets Regarding the Representation of Women on the Board in Executive Officer Positions**

*Disclose whether the Company has adopted targets regarding women on the Company's Board or in executive officer positions of the Company. If the Company has not adopted targets, disclose why it has not done so.*

The Corporation has not adopted specific targets for gender or other dimensions of diversity at the Board or executive officer level due to the relatively small size of these groups. In addition, the Corporation believes that it is important that each appointment to the Board and at the executive officer level be made, and be perceived as being made, based on the merits of the individual and the needs of the Corporation at the relevant time. If specific targets were adopted based on specific criteria, including gender, race, creed or gender identity this could limit the Corporation's ability to ensure that the overall composition of the Board and its team of executive officers meets the needs of the Corporation.

### **Number of Women on the Board and in Executive Officer Positions**

*Disclose the number and proportion (in percentage terms) of Directors on the Company's Board who are women.  
Disclose the number and proportion (in percentage terms) of executive officers of the Company, including all major subsidiaries of the Company, who are women.*

Currently, the Board does not have any Directors who are women (0%). The Company does not have any executive officers who are women (0%).

### **Disclosure of Outstanding Share Data**

The Company's common shares are traded on the Toronto Stock Exchange (TSX) under the symbol MPV and on the NASDAQ under the symbol MDM.

At March 29, 2016, there were 159,678,833 shares issued and 2,950,000 stock options outstanding.

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

## **Controls and Procedures**

### **Disclosure Controls and Procedures**

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 December 31, 2015 (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. Such disclosure controls and procedures are designed to ensure 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 includes controls and procedures designed to ensure information relating to the Company required to be included in our reports filed or submitted under the Exchange Act is accumulated and communicated to the Company's management to allow timely decision regarding disclosure.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Reference is made to our Management's Report on page 100 of our Annual Report on Form 20-F for the year ended December 31, 2015. Our auditors, KPMG LLP, an independent registered public accounting firm, have issued an audit report on our internal control over financial reporting as of December 31, 2015. This report appears on page 100 of such Annual Report.

### **CHANGES IN INTERNAL CONTROLS**

There have not been any changes in the Company's Internal Control Over Financial Reporting or in other factors that occurred during the year ended December 31, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's Internal Control Over Financial Reporting.

### **CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS**

*Certain of the statements made and information contained herein is “forward-looking information” within the meaning of the Ontario Securities Act. Forward-looking information may include, but is not limited to, statements with respect to the success of exploration activities, future mineral exploration, permitting time lines, requirements for additional capital, sources and uses of funds, the estimation of mineral reserves and mineral resources, the realization of mineral reserve and mineral resource estimates, future remediation and reclamation activities, the timing of activities and the amount of estimated revenues and expenses. Forward-looking information is based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of diamonds; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects. Should underlying assumptions prove incorrect, or one or more of the risks and uncertainties described below materialize, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.*

*Forward-looking information is subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking information, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; delays or the inability to obtain necessary governmental permits or financing; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labor disputes or other unanticipated difficulties with or shortages of labor or interruptions in production; failure of plant, equipment or processes to operate as anticipated; actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, diamond price fluctuations; uncertain political and economic environments; changes in laws or policies, and other risks and uncertainties, including those described under Risk Factors. Historical results of operations and trends that may be inferred from the following above discussions and analysis may not necessarily indicate future results from operations. The Company undertakes no obligation to publicly update or review the forward-looking statements whether as a result of new information, future events or otherwise, other than as required under applicable securities laws.*

#### ***Cautionary Note to U.S. Investors – Information Concerning Preparation of Resource Estimates***

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

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

*or legally mineable.*

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



## Item 6. Directors, Senior Management and Employees

A. *Directors and Senior management.*

Each director of MPV is elected by the shareholders to serve until close of the next annual meeting of shareholders or until a successor is elected or appointed, unless such office is earlier vacated in accordance with the Corporation's by-laws. The following table sets forth certain information regarding the current directors and executive officers of MPV, as of March 29, 2016.

<b>Name</b>	<b>Position with Company</b>	<b>Date of First Appointment</b>
Jonathan Comerford	Chair and Director <sup>(2)(3) (4)</sup>	Chair 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
Bruce Ramsden	Vice-President Finance and CFO	Vice President Finance since February 1, 2013 and Chief Financial Officer effective May 1, 2013
Reid Mackie	Vice-President Diamond Marketing	Vice President Diamond Marketing since November 1, 2015.
Bruce Dresner	Director <sup>(1) (4)</sup>	Director since March 11, 2013
Peeyush Varshney	Director <sup>(1) (2) (4)</sup>	Director since April 13, 2007
Carl Verley	Director <sup>(1)(3) (4)</sup>	Director of Old MPV since December 2, 1986 and Director of the Company since November 1, 1997
David E. Whittle	Director <sup>(2)(3) (4)</sup>	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.

(4) Independent director.

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 Chair 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 since August 1995. He serves as a director of Kennady Diamonds Inc. since February 2012.

***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. 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 has also served as the President and CEO and a director of Kennady Diamonds Inc. since February 2012 and is a non-executive director of Archon Minerals Limited and VMS Venture Inc.

***Bruce C. Ramsden, B.Comm., A.C.I.S.***

Mr. Bruce Ramsden has been the Company's Vice President Finance and Chief Financial Officer since May 2013. Mr. Ramsden is also Vice President Finance and Chief Financial Officer for Kennady Diamonds Inc., since May 2013. He has been a resident of Ontario, Canada since February 1996 and prior to that resided in South Africa where he graduated by correspondence with a Bachelor of Commerce degree from the University of South Africa and gained through correspondence a C.I.S through the Institute of Chartered Secretaries and Administrators. Mr. Ramsden worked for a number of large companies in South Africa, including Mobil Oil, Philips South Africa and Castrol Oil South Africa prior to immigrating to Canada in 1996. Since 1996, Mr. Ramsden has provided financial consulting services to Vaaldiam Resources Ltd. (May 1996 to December 2001) and in addition to his CFO and Corporate Secretary roles was also a Director. Mr. Ramsden was also a Director and Chief Financial Officer of Sierra Minerals Inc. (January 1998 to September 2006). Mr. Ramsden also consulted to St Andrew Goldfields Ltd. (January 2002 to June 2005) and was VP Finance, CFO and Corporate Secretary. Mr. Ramsden was also CFO and a Director for Heritage Exploration Ltd. (January 2005 to June 2005). Mr. Ramsden joined Vaaldiam Mining Inc., formerly Tiomin Resources Inc. (June 2005 to June 2010) as VP Finance, CFO and Corporate Secretary. Mr. Ramsden was also a Director of Freegold Ventures Limited (October 2009 to April 2011). Mr. Ramsden consulted to Andean American Gold Corp. (July 2010 to October 2012), which was acquired by Lupaka Gold Corp. (October 2012) and Southern Legacy Minerals Inc., formerly Sinchao Metals Corp. (July 2010 to June 2012) where in addition to his VP Finance, CFO and Corporate Secretary roles, he also provided financial and administrative services to both companies.

***Reid Mackie, BA***

Mr. Mackie has been the Company's Vice President Diamond Marketing since November 2015. Prior to joining the Company he was with Rio Tinto Diamonds, where he held the positions of Manager Sales and Marketing for Argyle Pink Diamonds in Perth, Australia (2011 to 2015) and Senior Executive Trader in Antwerp, Belgium (1999 to 2010). At Argyle, Mr. Mackie was responsible for the pricing and sales of all Argyle pink polished diamonds including the Argyle pink diamond tender. In Antwerp, Mr. Mackie was responsible for the valuation and sales of rough diamonds from the Diavik, Argyle, Murowa, Ellendale and Merlin diamond mines. Mr. Mackie is a graduate of the University of British Columbia (B.A., 1994).

***Bruce Dresner, MBA, BA***

Mr. Dresner has had a distinguished career as an investment professional, including Director of Investments and Chief Investment Officer at Dartmouth College (1985-1990), Vice President for Investments and Chief Investment Officer at Columbia University (1990-2002), Principal of Quellos Group LLC (2002-2007) and Managing Director, BlackRock Inc. (2007-2008). Since his retirement from BlackRock, Mr. Dresner has held a number of board and advisory positions, including serving on the advisory board of Capstone Investment Advisors (2008-2010), as a member of the strategic advisory board of Wilshire Private Markets at Wilshire Associates Inc. (2010-2014), and a trustee of the Gottex Multi-Asset Endowment and Alternative Asset Funds (2011-present) and as Senior Advisor to BlueLine Advisors LLC (2014 – present). Bruce Dresner is a graduate of Dartmouth College Tuck School of Business (MBA, 1971) and the University of Miami (BA Economics, 1969). Mr. Dresner also received his CFA (Chartered Financial Analyst) designation in 1980. Mr. Dresner is a resident of Florida, USA. Mr. Dresner was appointed as a director of Mountain Province in March 2013. He is also a director of the Sherman Fairchild Foundation (non-profit).

***Peeyush Varshney, B.Comm., 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 articulated 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 also director of Afrasia Mineral Fields Inc., Mexigold Corp., Trigen Resources Inc., Minaean SP Construction Corp., Open Gold Corp., Broome Capital Inc. and Margaret Lake Diamonds Inc.

***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., from May 2002 to July 2003 he was a director of Rome Resources Ltd., from July 2003 to December 2011, he was a director of Alphamin Resources Corp., and from October 2007 to May 2012 he was a director of African Metals Corp. He was vice president of exploration for Windstorm Resources Inc. from July 2011 to October 2012. Currently and since 1986 he has been a director of Mountain Province Diamonds Inc. and since February 2012, he has been a director of Kennady Diamonds Inc. 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 a registered Professional Geoscientist with the British Columbia Association of Professional Engineers and Geoscientists and Northwest Territories and Nunavut Association of Professional Engineers and Geoscientists.

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

Mr. Whittle is a Chartered Professional Accountant, Chartered Accountant, and is a resident of British Columbia, Canada. He has been a director of Mountain Province Diamonds Inc. since November 1997. Mr. Whittle obtained a Bachelor of Commerce degree (Finance) in 1987 from the University of British Columbia. He then articulated at Coopers & Lybrand, a Chartered Accountancy firm, in Vancouver, British Columbia, becoming a Chartered Accountant in 1991. From 1993 to June 2000, on completion of the Amalgamation, he was President/CEO and Chief Financial Officer of Glenmore. From 1994 to 1998, he was also Chief Financial Officer of Lytton Minerals Limited, a diamond mining exploration company with which Glenmore was affiliated. Additionally, from 1993 to 2004, Mr. Whittle was variously principal and partner of a Chartered Accountancy practice in the Vancouver area, providing services to both private and public companies in a variety of industries including mining, real estate, telecommunications, computer consulting, high tech and general merchandising. From 2004 to August 2007, Mr. Whittle was Chief Financial Officer of Hillsborough Resources Limited, a public company in the mining business. From October 2007 to December 2014, Mr. Whittle was 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. He is also a director of Kennady Diamonds Inc., since February 2012.

**B.***Compensation.*

The Company has two executive officers (collectively, the "Executive Officers"): Patrick Evans, the President and CEO, and Bruce Ramsden, Vice President Finance and CFO. 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 \$820,500 in the most recent fiscal year ending December 31, 2015. As at December 31, 2015, he had 850,000 stock options and on January 10, 2016, 100,000 options expired.

Grant date	Number	Vesting	Exercise Price	Term
January 10, 2011	100,000	Immediately	\$ 6.13	5 years
March 8, 2012	100,000	Immediately	\$ 4.84	5 years
May 14, 2013	100,000	Immediately	\$ 5.00	5 years
February 14, 2014	100,000	Immediately	\$ 5.29	5 years
April 14, 2015	200,000	Immediately	\$ 4.66	5 years
December 11, 2015	250,000	Immediately	\$ 3.57	5 years



Bruce Ramsden, Chief Financial Officer and Corporate Secretary, was paid \$415,500 pursuant to a consulting agreement for his services as CFO and Corporate Secretary for the year ended December 31, 2015. As at December 31, 2015, he has 350,000 stock options as follows:

Grant date	Number	Vesting	Exercise Price	Term
February 1, 2013	100,000	1/3 immediately, 1/3 after year 1 and 1/3 after year 2	\$ 4.08	5 years
February 14, 2014	50,000	Immediately	\$ 5.29	5 years
April 14, 2015	100,000	Immediately	\$ 4.66	5 years
December 11, 2015	100,000	Immediately	\$ 3.57	5 years

Reid Mackie, VP Diamond Marketing, was paid \$42,424 pursuant to a consulting agreement for his services as VP Diamond Marketing for the year ended December 31, 2015. As at December 31, 2015, he has 100,000 stock options as follows:

Grant date	Number	Vesting	Exercise Price	Term
October 16, 2015	100,000	1/3 immediately, 1/3 after year 1 and 1/3 after year 2	\$ 4.21	5 years

Effective January 1, 2014, compensation for the directors was approved at the following levels: Chair of the Board receives \$40,000 per annum, the Chair of the Audit Committee receives \$35,000 per annum, the Director acting as Qualified Person receives \$35,000, and all other Directors receive \$30,000 per annum. These amounts continue to be paid semi-annually, in advance. Effective January 1, 2016, compensation for the directors was approved at the following levels: Chair of the Board receives \$40,000 per annum, the Chair of the Audit Committee receives \$35,000 per annum, the Director acting as Qualified Person receives \$35,000, and all other Directors receive \$30,000 per annum. These amounts continue to be paid semi-annually, in advance.

For the year ended December 31, 2015, the compensation for the directors was approved and paid at the following levels: Chair of the Board - \$40,000, the Chair of the Audit Committee - \$35,000, the director acting as Qualified person receives \$35,000 and all other Directors- \$30,000 per annum. These amounts were paid semi-annually, in advance.

During each of the years ended December 31, 2015, December 31, 2014, and December 31, 2013, director fees were earned by the following directors:



Director/Position	December 31, 2015	December 31, 2014	December 31, 2013
Jonathan Comerford <i>Chair of the Board</i>	\$ 40,000	\$ 40,000	\$ 30,000
David Whittle <i>Chair of the Audit Committee</i>	\$ 35,000	\$ 35,000	\$ 25,000
Bruce Dresner <sup>(1)</sup> <i>Director</i>	\$ 30,000	\$ 30,000	\$ 16,082
Patrick Evans <i>Director</i>	\$ Nil	\$ Nil	\$ 6,667
Carl Verley <i>Director</i>	\$ 35,000	\$ 35,000	\$ 25,000
Peeyush Varshney <i>Director</i>	\$ 35,000	\$ 35,000	\$ 20,000

(1)

Mr. Dresner joined the board on March 18, 2013.

During 2014, the Company established a Finance Committee to oversee the arranging of a Project Finance Facility and at December 31, 2014, fees were earned by the following directors. No fees were earned in 2015:

Director/Position	December 31, 2015	December 31, 2014	December 31, 2013
Jonathan Comerford Director	\$ -	\$ 25,000	\$ -
David Whittle Chair of the Finance Committee	\$ -	\$ 35,000	\$ -
Bruce Dresner Director	\$ -	\$ 25,000	\$ -

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.

<b>Name</b>	<b>Securities, Acquired on Exercise (#)</b>	<b>Aggregate Value Realized (\$)<sup>(1)</sup></b>	<b>Unexercised Options at Financial Year-End Exercisable / Unexercisable (#)</b>	<b>Value of Unexercised In-the- Money Options at Financial Year-End Exercisable / Unexercisable (\$)<sup>(2)</sup></b>
Patrick Evans	Nil	Nil	750,000	97,500
Bruce Ramsden	Nil	Nil	350,000	39,000
Reid Mackie	Nil	Nil	33,334	-

(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, 2015, (i.e. financial year end) was \$3.96.

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 24 months of compensation if there is a change of control of the Company plus benefits and full

incentive compensation for the same period, all payable within 30 days of termination. In addition, the Company will fully fund Mr. Evans RBC life insurance policy to maturity through a lump sum payment, estimated at approximately \$400,000 based on term of the policy and prevailing interest rates. All stock options held by Mr. Evans will vest upon the Change of Control.

The next Annual General Meeting of the shareholders of the Company has been scheduled for June 21, 2016.

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, CPA, 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 Chair, 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 Peeyush Varshney (Chair), Carl Verley and Bruce Dresner. They 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 Chair 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, 2015, 2014, and 2013, the Company had no full-time employees. The President and CEO, Patrick Evans, the VP Finance, CFO and Corporate Secretary, Bruce Ramsden and the VP Diamond Marketing, Reid Mackie 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 29, 2016, 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 which are exercisable within 60 days from the above date.

Name of Beneficial Owner	Amount and Nature	Percentage <sup>(9)(10)</sup> of Class	
Patrick C. Evans <sup>(1)</sup>	2,140,229	1.3	%
Bruce Dresner <sup>(2)</sup>	681,111	*	%
Carl G. Verley <sup>(3)</sup>	556,640	*	%
Jonathan Comerford <sup>(4)</sup>	520,204	*	%
Peeyush Varshney <sup>(5)</sup>	372,422	*	%
David E. Whittle <sup>(6)</sup>	410,606	*	%
Bruce Ramsden <sup>(7)</sup>	350,000	*	%
Reid Mackie <sup>(8)</sup>	33,334	*	%
<b>Officer and Directors as a Group<sup>(9)</sup></b>	<b>5,064,546</b>	<b>3.1</b>	<b>%</b>

less than 1%

Includes 1,390,229 MPV Shares and 750,000 options. 100,000 options are exercisable at a price of \$4.84 per MPV share, and expire on March 7, 2017. 100,000 options are exercisable at a price of \$5.00 per MPV share, and expire (1) on May 13, 2018. 100,000 options are exercisable at a price of \$5.29 per MPV share, and expire on February 13, 2019. 200,000 options are exercisable at a price of \$4.66 per MPV share and expire on April 12, 2020. 250,000 options are exercisable at a price of \$3.57 per MPV share and expire on December 10, 2020.

Includes 381,111 MPV Shares and 300,000 options. 100,000 options are exercisable at a price of \$4.06 per MPV Share, and expire on March 10, 2018. 50,000 options are exercisable at a price of \$5.28 per MPV share, and expire (2) on July 2, 2018. 100,000 options are exercisable at a price of \$4.66 per MPV share and expire on April 12, 2020. 50,000 options are exercisable at a price of \$3.57 per MPV share and expire on December 10, 2020.

(3)

Includes 306,640 MPV Shares and 250,000 options. 100,000 options are exercisable at a price of \$5.28 per MPV share, and expire on July 2, 2018. 100,000 options are exercisable at a price of \$4.66 per MPV share and expire on April 12, 2020. 50,000 options are exercisable at a price of \$3.57 per MPV share and expire on December 10, 2020.

(4) Includes 145,204 MPV Shares and 375,000 options. 150,000 options are exercisable at a price of \$5.28 per MPV share, and expire on July 2, 2018. 150,000 options are exercisable at a price of \$4.66 per MPV share and expire on April 12, 2020. 75,000 options are exercisable at a price of \$3.57 per MPV share and expire on December 10, 2020.

(5) Includes 122,422 MPV Shares and 250,000 options. 100,000 options are exercisable at a price of \$5.28 per MPV share, and expire on July 2, 2018. 100,000 options are exercisable at a price of \$4.66 per MPV share and expire on April 12, 2020. 50,000 options are exercisable at a price of \$3.57 per MPV share and expire on December 10, 2020.

(6) Includes 160,606 MPV Shares and 250,000 options. 100,000 options are exercisable at a price of \$5.28 per MPV share, and expire on July 2, 2018. 100,000 options are exercisable at a price of \$4.66 per MPV share and expire on April 12, 2020. 50,000 options are exercisable at a price of \$3.57 per MPV share and expire on December 10, 2020.

(7) Includes Nil MPV Shares, and 350,000 options. 100,000 options are exercisable at a price of \$4.08 per MPV Share and expire on January 1, 2018. 50,000 options exercisable at a price of \$5.29 per MPV share, and expire on February 13, 2019. 100,000 options are exercisable at a price of \$4.66 per MPV share and expire on April 12, 2020. 100,000 options are exercisable at a price of \$3.57 per MPV share and expire on December 10, 2020.

(8) Includes Nil MPV Shares, and 33,334 options. 33,334 options are exercisable at a price of \$4.26 per MPV Share and expire on October 15, 2020.

(9) Includes 2,983,334 options outstanding, of which 2,558,334 are held by the directors and senior management (exercisable). The calculation does not include stock options that are not exercisable presently or within 60 days (of which there are Nil).

- (10) Total issued and outstanding capital as at the close of March 29, 2016 was 159,678,833 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 24, 2016, the Company's issued and outstanding capital was 159,678,833 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 February 29, 2016, the Company believes that approximately 18,246,160 of the MPV Shares were held by 60 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 28, 2016) and percentage of MPV Shares, warrants and options held by the Company's major shareholders:

Name of Shareholder <sup>(1)</sup>	No. of MPV Shares Held <sup>(2)</sup>	Percentage of issued and outstanding share capital of 159,678,833 shares (as at March 29, 2015)
Bottin (International) Investments Ltd. (controlled by Dermot Desmond)	36,645,087	22.95 %

(1) The Company has no actual knowledge of the above shareholding. The shareholder had 29,837,490 at March 25, 2014 and 30,896,681 at March 26, 2015. The above information was provided to the Company by the named



shareholder.

- (2) There are no options or warrants held by this 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 Bottin is controlled by Dermot Desmond and has significant influence over the Company because it is currently the Company's largest single shareholder with 22.95% of the outstanding shares: see "Item 7A - Major shareholders", above.

The Company's related parties include the operator of the Gahcho Kué Joint Project, Bottin, key management and their close family members, and the Company's directors. Kennady Diamonds Inc. ("Kennady Diamonds") is also a related party since the Company and Kennady Diamonds have common members of key management.

None of the transactions with related parties incorporate special terms and conditions, and no guarantees were given or received. Related party transactions are recorded at their exchange amount, being the amount agreed to by the parties. Outstanding balances are settled in cash.

Key management personnel of the Company are Patrick Evans, who is President and CEO, and Bruce Ramsden, who is VP Finance, Chief Financial Officer and Corporate Secretary. Patrick Evans is also a director of the Company. See "Item 6B – Compensation". Both Mr. Evans and Mr. Ramsden 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 other than normal accounts payable for timing of payments of fees.

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, 2015 and 2014, and for the years ended December 31, 2015 and 2014 and 2013, accompanied by the report of our independent registered accounting firm, including:

· Consolidated Balance Sheets as of December 31, 2015 and 2014.

· Consolidated Statements of Comprehensive Loss for the years ended December 31, 2015, 2014, and 2013.

· Consolidated Statements of Equity for the years ended December 31, 2015, 2014, and 2013.

· Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014 and 2013.

· 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 granting 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 MKT under the symbol "MDM". Commencing December 31, 2014, the MPV shares were listed for trading on the NASDAQ 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 MKT/NASDAQ, 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		NASDAQ/NYSE MKT	
	High (CDN\$)	Low (CDN\$)	High (US\$)	Low (US\$)
December 31, 2015	\$5.37	\$3.41	\$4.34	\$2.48
December 31, 2014	\$6.08	\$4.85	\$5.58	\$4.16
December 31, 2013	\$5.87	\$3.88	\$5.59	\$3.83
December 31, 2012	\$5.60	\$3.25	\$5.66	\$3.13
December 31, 2011	\$6.50	\$3.52	\$6.74	\$3.48

**High and Low Prices for the Most Recent Six Months**

Month Ended	TSX (CDN\$)		NASDAQ <sup>(1)</sup>	
	High	Low	High	Low
February 2016	\$ 5.12	\$ 4.30	\$ 3.73	\$ 3.08
January 2016	\$ 4.36	\$ 3.69	\$ 3.10	\$ 2.56
December 2015	\$ 4.05	\$ 3.40	\$ 2.90	\$ 2.47
November 2015	\$ 3.94	\$ 3.41	\$ 3.01	\$ 2.56
October 2015	\$ 4.40	\$ 3.45	\$ 3.41	\$ 2.60
September 2015	\$ 4.18	\$ 3.38	\$ 3.23	\$ 2.50

<sup>(1)</sup> On December 31, 2015, the closing price of the MPV Shares on the TSX was \$3.96 and on March 24, 2016 was \$4.89. The closing price of MPV Shares on NASDAQ on December 31, 2015 was US\$2.85 per share. The closing price on March 24, 2016 on the NASDAQ was US\$3.68 per MPV Share.

*B. Plan of distribution.*

Not Applicable.

*C. Markets.*

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

Period Ended:	TSX		NASDAQ/NYSE MKT/ OTCBB	
	High (CDN\$)	Low (CDN\$)	High (US\$)	Low (US\$)
December 31, 2015	\$ 4.40	\$ 3.40	\$ 3.41	\$ 2.47
September 30, 2015	\$ 5.26	\$ 3.38	\$ 4.17	\$ 2.50
June 30, 2015	\$ 5.46	\$ 4.36	\$ 4.40	\$ 3.48
March 31, 2015	\$ 5.17	\$ 5.08	\$ 4.38	\$ 3.22
December 31, 2014	\$ 5.49	\$ 4.85	\$ 5.26	\$ 4.16
September 30, 2014	\$ 6.08	\$ 4.99	\$ 5.58	\$ 4.57
June 30, 2014	\$ 5.16	\$ 4.88	\$ 4.85	\$ 4.46
March 31, 2014	\$ 5.75	\$ 5.00	\$ 5.25	\$ 4.46

(1) Prior to December 31, 2014, the Company traded on the NYSE MKT.

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 (subsequently NYSE Amex and now NYSE MKT) under the symbol "MDM". Commencing December 31, 2014, the Company's shares commenced trading on the NASDAQ under the symbol "MDM". The Common Shares are not registered to trade in the United States in the form of American Depositary 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 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.

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 Ontario. 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 Ontario.

**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.

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;

An arrangement by way of security granted by the Company for money loaned to, or obligations undertaken by, the e) 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.

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.

On June 13, 2013 the shareholders of the Company adopted an Advance Notice Policy for director nominations to the Board of the Company prior to any meeting of Shareholders where directors are to be elected.

### **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 2014.

### **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:

- b) insiders who are directors or senior officers of the Company; and
  
- c) 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 Loan Facility Agreement of US\$370 million dated April 2, 2015 through its subsidiary, 2435572 Ontario Inc., with a syndicate of lenders led by Natixis S.A., Scotiabank and Nedbank Ltd. and including ING Capital LLC, Export Development Canada and the Bank of Montreal. On April 29, 2015, Société Générale joined the lender syndicate. The Lenders hold security over the Company's 49% of the Gahcho Kué Diamond Mine held through the Company's subsidiaries.

The term of the Loan Facility is seven years and the interest rate is U.S. dollar LIBOR plus 5.5 percent. The Loan Facility has a drawdown schedule commencing on April 7, 2015 to March 31, 2017 to correspond with the projected construction period. When the Company reaches the earlier of commercial production or September 30, 2017, it will be subject to certain financial and insurance covenants.

De Beers Canada, as Operator of the Gahcho Kué Project, has entered into purchase commitments relating to the Gahcho Kué Project. As at December 31, 2015, the Company's proportional interest (49%) of the commitments made by the Operator is \$66,169,607. The commitments are in the course of normal development of the Gahcho Kué Project.

**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"<sup>1</sup> by a "non-Canadian"<sup>2</sup> of a "Canadian business",<sup>3</sup> 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),<sup>4</sup> (2) whether the purchaser (referred to as the "investor" under the ICA) and/or current owner of the Canadian business is a "WTO investor"<sup>5</sup>, (3) whether the Canadian business is a "cultural business"<sup>6</sup>, 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.

<sup>1</sup> 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.

<sup>2</sup> A "non-Canadian" is a purchaser the ultimate control of which resides outside of Canada.



<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> A "WTO investor" is a purchaser that is controlled ultimately by nationals or residents of a World Trade Organization ("WTO") member country.

<sup>6</sup> 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.

The table below provides a summary of the relevant asset thresholds.

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

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.)

<sup>7</sup> 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.

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 immovable 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

a) 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

b) 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. Except as specifically set forth below, this summary does not discuss applicable tax reporting requirements. 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.

### 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 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. "Gross income" generally includes all sales revenues less the cost of goods sold, plus income from investments and from incidental or outside operations or sources. "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 it was classified as a PFIC during the tax year ended December 31, 2014, 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, 2015 and may be a PFIC in subsequent tax years. The determination of whether any corporation was, or will be, a PFIC for a tax year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether any corporation will be a PFIC for any tax year depends on the assets and income of such corporation over the course of each such year and, as a result, cannot be predicted with certainty as of the date of this document. 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 ratably 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.

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". Subject to applicable limitations and provided the Company is eligible for the benefits of the Canada-U.S. Tax Convention, dividends paid by the Company to non-corporate U.S. Holders, including individuals, generally will be eligible for the preferential tax rates applicable to long-term capital gains for dividends, provided certain holding period and other conditions are satisfied, including that the Company not be classified as a PFIC in the tax year of distribution or in the preceding tax year.

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 2014 Feasibility Study NI 43-101 Technical Report as Amended May 27, 2014, with effective date March 31, 2014” have been consented to by Daniel D. Johnson, P.Eng., Kenneth Meikle, P.Eng., Dino Pilotto, P. Eng., all of JDS at Suite 206 – 3200 Richter Street, Kelowna, British Columbia V1W 6J6 and Kato Lone, Eng. at Hatch Ltd., 5 Place Ville Marie, Suite 1400, Montreal, QC, Canada, H3B 5K9 .

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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, 161 Bay Street, Suite 2315, Toronto, Ontario M5J 2S1. All of the documents referred to above are in English.

I. *Subsidiary Information.*

Not applicable.



**Item 11. Quantitative and Qualitative Disclosures About Market Risk.**

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.

See Note 5 to the Consolidated Financial Statements.

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. During 2015, the Company arranged a U.S dollar term loan facility and a requirement was that foreign exchange forward strip contracts and interest rate swaps be entered into. The Company currently does not believe it currently has any materially significant market risks relating to operations resulting from foreign exchange rates, however this could be a risk when commercial production commences. 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 long-term debt obligations. The Company does not use financial instruments for trading purposes and was not at December 31, 2015 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. Such disclosure controls and procedures are designed to ensure 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 includes controls and procedures designed to ensure information relating to the Company required to be included in our reports filed or submitted under the Exchange Act is accumulated and communicated to the Company's management to allow timely decision regarding disclosure.

(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 (2013), which is a suitable, recognized control framework established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management has assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective as of December 31, 2015.

(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, 2015. For KPMG LLP's report, see Item 18 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 NASDAQ. All other members of the Audit Committee are also independent as defined by the listing standards of the NASDAQ.

**Item 16B. Code of Ethics.**

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, reviews of 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 paid to KPMG in fiscal December 31, 2015 were \$275,000 including fees for the 2015 audits of the consolidated financial statements and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements (fiscal year ended December 31, 2014 - \$202,000). 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 services reasonably related to the performance of the audit or interim review that are not reported under "Audit Fees". "Audit Related Fees" charged by KPMG during the fiscal period ended December 31, 2015 were \$nil and \$nil for the fiscal year ended December 31, 2014.

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 for compliance services paid to KPMG in fiscal December 2015 were \$77,667 (December 31, 2014 - \$69,700). These services were approved by the Audit Committee.

D.

*All Other Fees*

In the fiscal year ending December 31, 2015, all other fees billed by KPMG were \$Nil (December 31, 2014 - \$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, 2015, 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.**

**NASDAQ Corporate Governance Matters**

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

*Shareholder Meeting Quorum Requirement:* The NASDAQ minimum quorum requirement for a shareholder meeting is one-third of the outstanding common shares. In addition, a company listed on NASDAQ 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:* NASDAQ 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 NASDAQ 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 NASDAQ 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.

Not Applicable.

Item 18. 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 18 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 reports of KPMG LLP, independent registered public accounting firm, are included herein immediately preceding the 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 as at and for the years ended December 31, 2015, 2014 and 2013 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 Annual Report filed with the SEC (see Appendix):

*Consolidated Financial Statements of the Company:*

Management's Annual Report on Internal Control Over Financial Reporting

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- 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, 2015 and 2014.
  
- Consolidated Statements of Comprehensive Loss for the years ended December 31, 2015 and 2014 and 2013.
  
- Consolidated Statements of Equity for the years ended December 31, 2015 and 2014 and 2013.
  
- Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014 and 2013.
  
- Notes to the Consolidated Financial Statements.

Item 19. Exhibits

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 29, 2016 **Patrick C. Evans**  
**President, CEO and Director**

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

## EXHIBIT INDEX

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

<i>Exhibit</i>	<i>Remarks.</i>
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)
4.14 Amended and Restated Joint Venture Agreement, dated July 3, 2009, by and among the Company, Camphor Ventures Inc. and De Beers Canada Inc.	(3)
4.15 US\$370 million term facility agreement signed on April 2, 2015	(1),(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 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.	(6)
15.2 2014 Technical Report, "Gahcho Kué Project: 2014 Feasibility Study; NI 43-101 Technical Report" as Amended May 27, 2014, with effective date March 31, 2014"	(6)

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

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- (1) Portions of the Agreement have been omitted pursuant to a request for confidential treatment filed with SEC.
- (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.



**Appendix**

**Item 18. Financial Statements**

Consolidated Financial Statements

(Expressed in Canadian Dollars)

MOUNTAIN PROVINCE  
DIAMONDS INC.

As at December 31, 2015 and 2014

And for the years ended December 31, 2015, 2014 and 2013

**MOUNTAIN PROVINCE DIAMONDS INC.**

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**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 Company's consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") appropriate in the circumstances.

Management has established processes, which are in place to provide sufficient knowledge to support management representations that it has exercised reasonable diligence that the consolidated financial statements fairly present in all material respects the financial condition, 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. The Audit Committee assists the Board of Directors in fulfilling this responsibility.

The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its 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 IFRS as issued by the IASB, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

*"Patrick C. Evans"*

*"Bruce Ramsden"*

Patrick C. Evans                                      Bruce Ramsden  
President and Chief Executive Officer      VP Finance and Chief Financial Officer

Toronto, Canada

March 29, 2016

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**MOUNTAIN PROVINCE DIAMONDS INC.**

**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

To evaluate the effectiveness of the Company's internal control over financial reporting, Management has used the Internal Control – Integrated Framework (2013), which is a suitable, recognized control framework established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management has assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective as of December 31, 2015. The Company's independent auditors, KPMG LLP, have issued an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

March 29, 2016

**MOUNTAIN PROVINCE DIAMONDS INC.**

**INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of Mountain Province Diamonds Inc.

We have audited the accompanying consolidated financial statements of Mountain Province Diamonds Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive loss, equity and cash flows for each of the years in the three-year period ended December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mountain Province Diamonds Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**MOUNTAIN PROVINCE DIAMONDS INC.**

*Other Matter*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Mountain Province Diamond Inc.'s internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 29, 2016 expressed an unmodified (unqualified) opinion on the effectiveness of Mountain Province Diamonds Inc.'s internal control over financial reporting.

Chartered Professional Accountants, Licensed Public Accountants

March 29, 2016

Toronto, Canada



**MOUNTAIN PROVINCE DIAMONDS INC.**

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

To the Shareholders of Mountain Province Diamonds Inc.

We have audited Mountain Province Diamonds Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) 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, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We 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.

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, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Mountain Province Diamonds Inc. as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive loss, equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated March 29, 2016 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

Chartered Professional Accountants, Licensed Public Accountants

March 29, 2016

Toronto, Canada

**MOUNTAIN PROVINCE DIAMONDS INC.****Consolidated Balance Sheets**

In Canadian dollars

	Notes	December 31, 2015	December 31, 2014
<b>ASSETS</b>			
Current assets			
Cash		\$9,081,791	\$3,779,907
Short-term investments		-	77,261,842
Amounts receivable		1,348,018	1,597,060
Prepaid expenses		758,249	2,245,319
		11,188,058	84,884,128
Restricted cash	6	94,512,019	-
Financing costs	9	13,891,403	2,570,914
Property and equipment	7	463,256,628	213,539,470
Total assets		\$582,848,108	\$300,994,512
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities	13	\$28,193,849	\$38,087,790
Derivative liabilities	10	15,746,449	-
		43,940,298	38,087,790
Loan facility	9	205,686,683	-
Derivative liabilities	10	1,495,304	-
Decommissioning and restoration liability	8	23,044,826	7,996,825
Shareholders' equity:			
Share capital	11	472,285,993	377,614,185
Share-based payments reserve	11	4,775,687	2,507,424
Deficit		(168,380,683)	(125,211,712)
Total shareholders' equity		308,680,997	254,909,897
Total liabilities and shareholders' equity		\$582,848,108	\$300,994,512
Contingencies and commitments	5 & 7		
Subsequent event	11 (iii)		

**On behalf of the Board:**

*“Patrick Evans” “Jonathan Comerford”*  
**Director                  Director**

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

**MOUNTAIN PROVINCE DIAMONDS INC.****Consolidated Statements of Comprehensive Loss**

In Canadian dollars

	Notes	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Expenses:				
Consulting fees	11 & 13	\$ (4,123,689	) \$ (1,550,392	) \$ (2,527,607 )
Depreciation		(8,537	) (6,795	) (259,334 )
Exploration and evaluation expenses	14	(32,001	) (1,508,329	) (21,837,083 )
Gahcho Kué Project management fee	13	-	-	(1,113,848 )
Office and administration		(499,676	) (385,326	) (318,735 )
Professional fees		(678,842	) (429,272	) (353,421 )
Promotion and investor relations		(134,606	) (125,757	) (194,894 )
Director fees		(179,678	) (264,232	) (145,153 )
Transfer agent and regulatory fees		(408,834	) (232,772	) (180,412 )
Travel		(250,713	) (223,964	) (157,497 )
Loss for the period from operations		\$ (6,316,576	) \$ (4,726,839	) \$ (27,087,984 )
Accretion expense on decommissioning and restoration liability	8	(186,326	) (214,211	) (23,882 )
Other income (expenses):				
Interest income		1,130,419	458,659	355,428
Management fees	13	90,000	90,000	152,500
Derivative loss	10	(19,408,350	) -	-
Finance costs		(253,838	) -	-
Foreign exchange loss		(18,224,300	) -	-
Loss on sale of marketable securities		-	(1,688	) -
Net loss for the year		\$ (43,168,971	) \$ (4,394,079	) \$ (26,603,938 )
Other Comprehensive Loss				
Items that are and may be reclassified subsequently to profit and loss:				
Reclassification of loss on sale of marketable securities		-	1,688	-
Change in fair value of available-for-sale marketable securities		-	(646	) (5,931 )
Other comprehensive loss		-	1,042	(5,931 )
Total comprehensive loss for the year		\$ (43,168,971	) \$ (4,393,037	) \$ (26,609,869 )

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Basic and diluted loss per share	11(iv)	\$ (0.28	) \$ (0.04	) \$ (0.28	)
Weighted average number of shares outstanding		153,476,202	113,865,562	94,838,537	

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

**MOUNTAIN PROVINCE DIAMONDS INC.****Consolidated Statements of Equity**

In Canadian dollars

Notes	Number of shares	Share capital	Share-based payments reserve	Deficit	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2013	94,168,151	\$ 180,170,247	\$ 1,233,857	\$(94,213,695 )	\$ 4,889	\$ 87,195,298
Net loss for the year	-	-	-	(26,603,938 )	-	(26,603,938 )
Issuance of common shares – Rights Offering, net of costs	5,889,200	28,807,501	-	-	-	28,807,501
Issuance of common shares – exercise of options	444,000	559,440	-	-	-	559,440
Fair value of options exercised from share-based payments reserve	-	283,272	(283,272 )	-	-	-
Share-based payment expense	-	-	1,240,821	-	-	1,240,821
Other Comprehensive Loss:						
Available-for-sale financial assets - Current period unrealized losses	-	-	-	-	(5,931 )	(5,931 )
Balance, December 31, 2013	100,501,351	\$ 209,820,460	\$ 2,191,406	\$(120,817,633 )	\$( 1,042 )	\$ 91,193,191
Net loss for the year	-	-	-	(4,394,079 )	-	(4,394,079 )
Issuance of common shares –	34,703,199	167,793,725	-	-	-	167,793,725

Private Placements, net of costs						
Share-based payment expense	-	-	316,018	-	-	316,018
Other Comprehensive Loss:						
Available-for-sale financial assets						
- Current period unrealized losses	-	-	-	-	(646 )	(646 )
- Reclassification of loss on sale of marketable securities	-	-	-	-	1,688	1,688
Balance, December 31, 2014	135,204,550	\$ 377,614,185	\$ 2,507,424	\$(125,211,712)	\$ -	\$ 254,909,897
Net loss for the year	-	-	-	(43,168,971 )	-	(43,168,971 )
Issuance of common shares – Rights Offering, net of costs	11(ii)	23,761,783	91,821,808	-	-	91,821,808
Stand-by fee	11(ii)	712,500	2,850,000	-	-	2,850,000
Share-based payment expense	-	-	2,268,263	-	-	2,268,263
Balance, December 31, 2015	159,678,833	\$ 472,285,993	\$ 4,775,687	\$(168,380,683)	\$ -	\$ 308,680,997

*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

	Notes	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Cash provided by (used in):				
Operating activities:				
Net loss for the year		\$ (43,168,971	) \$ (4,394,079	) \$ (26,603,938
Adjustments:				
Accretion expense on decommissioning and restoration liability		186,326	214,211	23,882
Depreciation		8,537	6,795	259,334
Share-based payment expense		2,268,263	316,018	1,240,821
Interest income		(1,130,419	) (458,659	) (355,428
Financing costs		253,838		
Loss on derivative liabilities		19,408,350	-	-
Foreign exchange loss		18,224,300	-	-
Loss on sale of marketable securities		-	1,688	-
Changes in non-cash operating working capital:				
Amounts receivable		80,857	(982,451	) (276,702
Prepaid expenses and supplies		(11,170	) 8,372,547	) (12,054,423
Accounts payable and accrued liabilities		(363,461	) (11,934,754	) 5,146,918
		(4,243,550	) (8,858,684	) (32,619,536
Investing activities:				
Interest income		1,130,419	458,659	355,428
Restricted cash		(94,512,019	) -	-
Proceeds from sale of marketable securities		-	2,944	-
Amounts receivable		168,185	-	-
Payments for property and equipment		(239,795,590	) (112,267,464	) (9,108,832
Redemption of short-term investments		77,261,842	(52,918,620	) 23,075,775
		(255,747,163	) (164,724,481	) 14,322,371
Financing activities:				
Loan facility		198,178,927	-	-
Financing costs		(27,660,314	) (1,775,125	) -
Proceeds from option exercises		-	-	559,440
Proceeds from share issuance, net of costs	11(ii)	94,671,808	167,793,725	28,807,501
		265,190,421	166,018,600	29,366,941
Effect of foreign exchange rate changes in cash		102,176	-	-

Increase (decrease) in cash	5,301,884	(7,564,565	) 11,069,776
Cash, beginning of year	3,779,907	11,344,472	274,696
Cash, end of year	\$ 9,081,791	\$ 3,779,907	\$ 11,344,472

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

**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

**As at December 31, 2015 and 2014 and**

**For the Years Ended December 31, 2015, 2014 and 2013**

**In Canadian Dollars**

**1. Nature of Operations**

Mountain Province Diamonds Inc. (“Mountain Province” and together with its subsidiaries collectively, the “Company”) was incorporated on December 2, 1986 under the British Columbia Company Act. The Company amended its articles and continued incorporation under the Ontario Business 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 (“TSX”) under the symbol ‘MPV’ and on the NASDAQ under the symbol ‘MDM’.

The Company is in the process of developing the Gahcho Kué Project (“Gahcho Kué Diamond Mine”) in conjunction with De Beers Canada Inc. (“De Beers Canada”) (Note 7). The underlying value and recoverability of the amounts shown as “Property and Equipment” are dependent on development and commissioning, and upon future profitable production or proceeds from disposition of the Company’s assets. Failure to meet the obligations for the Company’s share in the Gahcho Kué Diamond Mine may lead to dilution of the interest in the Gahcho Kué Diamond Mine and may require the Company to write off costs capitalized to date.

*Authorization of Financial Statements*

These consolidated financial statements were approved by the Board of Directors on March 29, 2016.

**2. BASIS OF PRESENTATION**

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The policies set out below were consistently applied to all

the periods presented.

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

### **3. Significant accounting policies**

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

#### **(i) Basis of consolidation**

The consolidated financial statements include the accounts of Mountain Province and its wholly-owned subsidiaries:

2435572 Ontario Inc. (100% owned)  
2435386 Ontario Inc. (100% owned by 2435572 Ontario Inc.)

The Company's interest in the Gahcho Kué Diamond Mine is held through 2435386 Ontario Inc.

A subsidiary is an entity controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A subsidiary is 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.

**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

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The Company has determined that its interest in the Gahcho Kué Diamond Mine through its joint arrangement is a joint operation under International Financial Reporting Standard 11, Joint Arrangement, and, accordingly has recorded the assets, liabilities, revenues and expenses in relation to its interest in the joint operation. The Company's interest in the Gahcho Kué Diamond Mine is bound by a contractual arrangement establishing joint control over the project through required unanimous consent of the Company and De Beers Canada (the "Participants") for strategic, financial and operating policies of the Gahcho Kué Diamond Mine. The Gahcho Kué Diamond Mine management committee has two representatives of each of the Company and De Beers Canada. The Participants have appointed De Beers Canada as the operator of the Gahcho Kué Diamond Mine.

**(ii)**

**Foreign Currency**

The functional currency of the Company and its subsidiaries is the Canadian Dollar.

In preparing the consolidated financial statements, transactions in currencies other than the Company's functional currency, are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items 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. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

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

**(iii)**

**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 11.

The fair value determined at the grant date of the equity-settled share-based payments is expensed in profit or loss over the vesting period, if any, which is the period during which the employee becomes unconditionally entitled to equity instruments. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest, if any.

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.

**(iv) Income Taxes and Deferred Taxes**

The income tax expense or benefit for the year consists of two components: current and deferred.

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

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

**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

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

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of 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, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off 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 in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

(v) **Mineral properties and exploration and evaluation costs and development costs**

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

Exploration and evaluation costs consist of:

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



**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

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Costs in relation to these activities are expensed as incurred until such time that the technical feasibility and commercial viability of extracting the mineral resource are demonstrable. At such time, mineral properties are assessed for impairment, and an impairment loss, if any, is recognized, and future development costs will be capitalized to assets under construction.

The key factors management used in determining technical feasibility and commercial viability of the Gahcho Kué Diamond Mine are demonstrable are the following;

- completion of a feasibility study;
- obtaining required permits to construct the Gahcho Kué Diamond Mine;
- completion of an evaluation of the financial resources required to construct the Gahcho Kué Diamond Mine;
- availability of financial resources necessary to commence development activities to construct the Gahcho Kué Diamond Mine; and
- management's determination that a satisfactory return on investment, in relation to the risks to be assumed, is likely to be obtained.

The Company also recognizes exploration and evaluation costs as assets when acquired as part of a business combination, or asset purchase, or as a result of rights acquired relating to a mineral property.

**(vi)**

**Property and equipment**

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary to put the asset into use, as well as the future cost of dismantling and removing the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Replacement cost, including major inspection and overhaul expenditures are capitalized for components of property, plant and equipment, which are accounted for separately.

Development costs are capitalized under assets under construction. Expenditures, including engineering to design the size and scope of the project, environmental assessment and permitting and borrowing costs are capitalized to assets under construction.

Amortization is provided on property, plant and equipment. Amortization is calculated so as to allocate the cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and amortization method are reviewed at the end of each annual reporting period. Mineral properties are not amortized until the properties to which they relate are placed into commercial production, at which time the costs will be amortized on a unit-of-production method following commencement of commercial production. Assets under construction are not amortized; rather costs are deferred until the asset is ready for use, at which point the deferred amount is transferred to the appropriate asset category and amortized as set out below.

Corporate assets	two to five years, straight line
Vehicles	three to five years, straight line
Production and related equipment	three to ten years, straight line
General infrastructure	four to ten years, straight line
Earthmoving equipment	estimated hours
Assets under construction	not depreciated until production

**MOUNTAIN PROVINCE DIAMONDS INC.**

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**(vii) Impairment of non-financial assets**

The carrying value of the Company's capitalized property and equipment is assessed for impairment when indicators of such impairment exist. 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 has 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 profit or loss so as to reduce the carrying amount to its recoverable amount.

**(viii) Capitalized interest**

Interest costs for qualifying assets are capitalized. Qualifying assets are assets that require a significant amount of time to prepare for their intended use, including projects that are in development or construction stages. Capitalized interest costs are considered an element of the cost of the qualifying asset. Capitalization ceases when the asset is substantially complete or if active development is suspended or ceases. Where funds borrowed are directly attributable to a qualifying asset, the amount capitalized represents the borrowing costs specific to those borrowings.

**(ix) Financial instruments**

The Company classifies financial assets into the following categories: loans and receivables; fair value through profit or loss; held-to-maturity; and available-for-sale. The Company classifies financial liabilities into the following categories: fair value through profit or loss and other financial liabilities category. 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 profit or loss.
- Financial assets classified as available-for-sale are measured at fair value, with changes in fair values recognized as Other Comprehensive Income (“OCI”), 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 in profit or 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 shorter period, to the net carrying amount on initial recognition.

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars**

The Company may enter into derivative financial instruments to mitigate economic exposures to interest rate and currency exchange rate fluctuations. Derivatives are initially recognized at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss. The fair values of derivative assets and liabilities are determined using valuation techniques with assumptions based on prevailing market conditions on the reporting date. Pursuant to the Loan Facility described in Note 9, the Company entered into foreign currency forward strip and interest rate swap contracts, described in Note 10.

Derivative instruments are classified as current or non-current assets or liabilities, depending on their maturity dates. Derivative assets are not offset against derivative liabilities.

*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 reporting date, and the changes in the fair value are recognized in profit or loss.

The Company has classified its financial instruments as follows:

<b>Asset/Liability</b>	<b>Classification</b>	<b>Measurement</b>
Cash	Fair value through profit and loss	Fair value
Short-term investments	Fair value through profit and loss	Fair value
Derivative liabilities	Fair value through profit and loss	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Marketable securities	Available-for-sale	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Loan facility	Other liabilities	Amortized cost

The Company's cash consists of balances with banks. 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, 2015 and 2014.

(x)

**Provisions**

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expected expenditures to settle the obligation, applying a risk-free discount rate. The increase in the provision due to passage of time is recognized as accretion expense. The Company does not have any provisions as of December 31, 2015 other than the provision for decommissioning and restoration associated with the Mineral Properties.

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.

**MOUNTAIN PROVINCE DIAMONDS INC.**

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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. Over time, the discounted liability is increased for the change in present value. The periodic unwinding of the discount is recognized in profit or loss as a finance cost called "accretion expense on decommissioning and restoration liability". Additional disturbances or changes in rehabilitation costs will be recognized as additional capitalized costs (or exploration and evaluation expense depending on whether there was a related asset when the liability was initially recognized) and additional decommissioning and restoration liability when they occur. If it is determined that the expected costs for decommissioning and restoration are reduced, the change in the present value of the reduction is recorded as a reduction in the capitalized costs (expensed), and a reduction of the decommissioning and restoration liability. For closed sites, changes to estimated costs are recognized immediately in profit or loss.

(xi)

**Loss per share**

Basic loss or earnings per share is calculated by dividing loss or earnings attributable to common shares divided by the weighted average number of shares outstanding during the year.

Diluted loss or earnings per share is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding stock options. The denominator is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all stock options with exercise prices below the average market price for the year.

(xii) **Standards and amendments 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 and amendments 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 standards will be adopted by the Company in the first period beginning after the effective date of the standard. Information on new standards and amendments that are expected to be relevant to the Company's financial statements is provided below.

### **Financial instruments**

In July 2014, the IASB issued the final version of International Financial Reporting Standard 9, Financial Instruments (“IFRS 9”) bringing together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 is annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the impact of adopting IFRS 9 on the consolidated financial statements along with timing of adoption of IFRS 9.

### **Property, plant and equipment and intangible assets**

In May 2014, the IASB issued amendments to International Accounting Standard 16 Property, plant and equipment, (“IAS 16”) and International Accounting Standard 38, Intangible assets (“IAS 38”). The amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively. The amendments clarify the factors in assessing the technical or commercial obsolescence and the resulting depreciation period of an asset and state that a depreciation method based on revenue is not appropriate. The amended standard is not expected to have a significant impact on the consolidated financial statements.

### **Leases**

On January 13, 2016, the IASB issued International Financial Reporting Standard 16, Leases (“IFRS 16”). The new standard will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The new standard is effective for years beginning on or after January 1, 2019. The Company is currently assessing the impact of IFRS 16.



**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

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**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company's consolidated financial statements requires management to make judgments, 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.

i) Significant judgments in applying accounting policies

The areas which require management to make significant judgments in applying the Company's accounting policies in determining carrying values include, but are not limited to:

*a) Impairment analysis – mineral properties*

As required under IAS 36 – Impairment of Assets ("IAS 36"), the Company reviews its mineral properties for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. The Company is required to make certain judgments in assessing indicators of impairment. The Company's assessment is that as at December 31, 2015, 2014 and 2013 no indicator of an impairment in the carrying value of its mineral properties had occurred.

ii) Significant accounting estimates and assumptions

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

a) *Mineral reserves and resources*

Mineral reserve and resource estimates include numerous uncertainties and depend heavily on geological interpretations and statistical inferences drawn from drilling and other data, and require estimates of future price for the commodity and future cost of operations. The mineral reserve and resources are subject to uncertainty and actual results may vary from these estimates. Results from drilling, testing and production, as well as material changes in commodity prices and operating costs subsequent to the date of the estimate, may justify revision of such estimates. Changes in the proven and probable mineral reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of the properties.

b) *Provision for decommissioning and restoration*

The decommissioning and restoration liability and the accretion recorded are based on estimates of future cash flows, discount rates, and assumptions regarding timing. The estimates are subject to change and the actual costs for the decommissioning and restoration liability may change significantly.

c) *Stock options*

The stock option pricing model requires the input of highly subjective assumptions including the expected life and volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

**As at December 31, 2015 and 2014 and**

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*d) Deferred taxes*

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unused losses carried forward, and are measured using the substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, including forecasts, it is probable that they will be realized. The Company has not recorded the benefit of tax losses or deductible temporary differences.

**5. FINANCIAL INSTRUMENTS**

**Fair value measurement**

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

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

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

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December 31, 2015	Note	Carrying amount			Fair value			Total
		Loans and receivables	Fair value through profit and loss	Other financial liabilities	Level 1	Level 2	Level 3	
Financial assets measured at fair value								
Cash		\$-	\$9,081,791	\$-	\$9,081,791	\$-	\$-	\$9,081,791
Financial assets not measured at fair value								
Amounts receivable		1,348,018	-	-	1,348,018			
Restricted cash		94,512,019	-	-	94,512,019			
		95,860,037	-	-	95,860,037			
Financial liabilities measured at fair value								
Derivative liabilities		-	17,241,753	-	17,241,753	-	17,241,753	-
Financial liabilities not measured at fair value								
Accounts payable and accrued liabilities		-	-	28,193,849	28,193,849			
Loan facility		-	-	205,686,683	205,686,683	-	216,908,983	-
		-	-	233,880,532	233,880,532			

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars**

December 31, 2014	Note	Carrying amount			Fair value			Total	
		Loans and receivables	Fair value through profit and loss	Other financial liabilities	Level 1	Level 2	Level 3		
Financial assets measured at fair value									
Cash		\$-	\$3,779,907	\$-	\$3,779,907	\$3,779,907	\$-	\$-	\$3,779,907
Short-term investments		-	77,261,842	-	77,261,842	-	77,261,842	-	77,261,842
		-	81,041,749	-	81,041,749				
Financial assets not measured at fair value									
Amounts receivable		1,597,060	-	-	1,597,060				
Financial liabilities not measured at fair value									
Accounts payable and accrued liabilities		-	-	38,087,790	38,087,790				

Short-term investments at December 31, 2014 are cashable guaranteed investment certificates (“GICs”) held with a major Canadian financial institution. GICs are measured using a discounted cash flow model, where the future value of the GIC is discounted to the reporting period using the market interest rate.

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.

Fair value assets and liabilities classified as Level 2 are valued using discounted cash flow (“DCF”) models. These models require a variety of observable inputs including market prices, forward price curves, yield curves and credit

spreads. These inputs are obtained from or verified with the market where possible.

Derivative instruments are valued using DCF models. These models require a variety of observable inputs including market prices, forward price curves and yield curves. These inputs are obtained from or verified with the market where possible.

### Financial Instruments Risks

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk, market risk, foreign currency risk and interest rate risk.

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk for its amounts receivable is summarized as follows:

	December 31, 2015	December 31, 2014
0-30 days	\$ 1,321,257	\$ 1,536,394
30 to 90 days	-	49,964
More than 90 days	26,761	10,702
Total	\$ 1,348,018	\$ 1,597,060

On December 31, 2015 and 2014, the Company does not have any allowance for doubtful accounts, and does not consider that any such allowance is necessary.

**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

**As at December 31, 2015 and 2014 and**

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All of the Company's cash 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 in the form of guaranteed investment certificates ("GICs") and are cashable in whole or in part, 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 parties from whom most of the amounts receivable are due - the Canadian government for harmonized sales tax ("HST") refunds receivable in the amount of approximately \$1,312,782 (2014 – approximately \$1,532,499).

The Company's current policy is to hold excess cash in bank accounts. It periodically monitors the investment income it makes and is satisfied with the credit ratings of its bank.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. Additional funds from the Loan Facility (Note 9) will be required to fund its share of the construction of the Gahcho Kué Diamond Mine. The Company's approach to managing liquidity risk is to monitor forecast cash flows so that it will have sufficient liquidity to meet liabilities when due. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its ongoing requirements. The Company coordinates this planning and budgeting process with its financing activities through its capital management process. Drawdowns under the Loan Facility are subject to certain conditions, including approval of a quarterly cost to complete report prepared by an independent technical consultant.

As at December 31, 2015, the Company has drawn US\$158 million or \$218.672 million Canadian dollar equivalent from the Loan Facility. Subsequent draws on the Loan Facility are subject to satisfaction of certain conditions (Note 9).

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

	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
Operating lease obligations	\$142,256	\$11,855	\$-	\$-	\$154,111
Gahcho Kué Diamond Mine commitments	66,169,607	-	-	-	66,169,607
Trade and other payables	28,193,849	-	-	-	28,193,849
Loan facility - Principal	-	164,192,718	54,479,282	-	218,672,000
Loan facility - Interest	15,670,300	26,084,400	1,398,300	-	43,153,000
Interest Rate Swap Contracts:					
Outflows	2,628,750	1,227,392	(289,119 )	(7,286)	3,559,737
Forward Exchange Contracts*:					
(Inflows)	(130,485,120)	(10,547,404 )	-	-	(141,032,524)
Outflows	143,970,448	11,727,455	-	-	155,697,903
	\$ 126,290,090	\$ 192,696,416	\$ 55,588,463	\$(7,286)	\$ 374,567,683

\*The foreign exchange contracts inflows and outflows have been signed with the syndicate of lenders. In the scenario where one or more of these lenders are unable to pay, the Company could be exposed to the outflow of agreed upon funds for the remaining contracts at that time. Any offsetting would be at the discretion of the lenders. The Company believes it has no significant credit risk.

### Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income and the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing returns.



**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

**As at December 31, 2015 and 2014 and**

**For the Years Ended December 31, 2015, 2014 and 2013**

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**(i) Interest rate risk**

The Company is exposed to interest rate risk on its outstanding borrowings, interest rate swap contracts and short-term investments (2014). The Company has entered into interest rate swaps (Note 10) to fix its interest rate exposure for 75% of its U.S. dollar Loan Facility and therefore has interest rate exposure to the remaining 25%. As December 31, 2015, the total Loan Facility drawn was US\$158 million and interest rate swaps of US\$117.7 million are currently in effect.

At December 31, 2015, a 100 basis point increase in the LIBOR interest rate for the 75% interest rate swap portion would have resulted in a decrease to interest by approximately \$9.96 million. A 100 basis point decrease in the LIBOR interest rate for the 75% interest rate swap portion would have resulted in an increase to interest by approximately \$10.15 million.

At December 31, 2015, a 100 basis point increase in LIBOR interest rate for the 25% floating portion would have resulted in an increase to interest by approximately \$53,100. A 100 basis point decrease in LIBOR interest rate for the 25% floating portion would have resulted in a decrease to interest by approximately \$53,100.

**(ii) Foreign currency**

The Company is exposed to financial risk related to foreign exchange rates. The Company operates in Canada and has foreign currency exposure to transactions in U.S. dollars. The majority of development costs of the Gahcho Kué Diamond Mine will be in Canadian dollars, but funded through the U.S. dollar Loan Facility (Note 10). The Company has entered into foreign currency forward strip contracts (Note 10) to mitigate the risk that a devaluation of the U.S. dollar against the Canadian dollar would reduce the Canadian dollar equivalent to the U.S. dollar Loan Facility and the Company would not have sufficient Canadian dollar funds to develop the Gahcho Kué Diamond Mine. The foreign currency forward strip contracts increase the exposure to financial risk related to foreign exchange rates. Currency risk relates to the U.S. dollar Loan Facility, foreign currency forward strip contracts and cash and restricted cash denominated in U.S. dollars.

As at December 31, 2015, the Company had cash and restricted cash, derivative liabilities and the Loan Facility that are in U.S. dollars.

Cash	\$2,400,000
Restricted cash	500,000
Derivative liabilities	(17,200,000 )
Loan facility	(218,700,000)
Total	\$(233,000,000)

A 10% appreciation or depreciation of the Canadian dollar relative to the U.S. dollar at December 31, 2015 would have resulted in an increase or decrease to net loss of approximately \$23.3 million.

## 6. RESTRICTED CASH

Total restricted cash of \$94,512,019 at December 31, 2015 (December 31, 2014 – \$Nil) included \$93,521,348 held in a restricted cost overrun account and \$990,671 held in a restricted proceeds account. The amounts held in the restricted cost overrun reserve account are restricted for the use of funding potential cost overruns of the Gahcho Kué Diamond Mine, and the use of this account must be approved by the lenders under the Loan Facility agreement (Note 9). The amounts held in the restricted proceeds account are restricted for the use of funding the Company's share of expenditures for the Gahcho Kué Diamond Mine, the amounts will be used to fund the Company's share of expenditures in the first quarter of 2016. These amounts are restricted under the Loan Facility agreement.

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars****7. PROPERTY AND EQUIPMENT**

The Company's property and equipment as at December 31, 2015 and 2014 are as follows:

	Corporate assets	Vehicles	Production and related equipment	General infrastructure	Earthmoving equipment	Mineral properties	Assets under construction	Total
Cost								
At January 1, 2014	\$38,877	\$728,263	\$177,030	\$993,163	\$1,773,510	\$45,596,529	\$12,281,302	\$61,588,374
Decommissioning and restoration adjustment	-	-	-	-	-	2,557,952	-	2,557,952
Additions	-	1,474,510	260,768	3,507,483	8,450,313	10,000,000	128,322,309	\$152,012,383
At December 31, 2014	38,877	2,202,773	437,798	4,500,646	10,223,823	58,154,481	140,603,611	216,167,528
Decommissioning and restoration adjustment	-	-	-	-	-	14,861,675	-	14,861,675
Additions*	12,183	-	-	-	192,122	-	236,679,883	236,872,065
At December 31, 2015	\$51,060	\$2,202,773	\$437,798	\$4,500,646	\$10,415,945	\$73,016,156	\$377,283,494	\$467,905,772
Accumulated depreciation								
At January 1, 2014	\$(14,119)	\$(87,719)	\$(19,511)	\$(145,553)	\$(37,287)	\$-	\$-	\$(304,189)
Depreciation	(6,795)	(519,970)	(194,672)	(713,352)	(883,561)	-	-	(2,318,350)
At December 31, 2014	(20,914)	(607,689)	(214,183)	(858,905)	(920,848)	-	-	(2,622,509)
Depreciation	(8,537)	(390,152)	(34,698)	(584,767)	(1,010,551)	-	-	(2,028,605)
	\$(29,451)	\$(997,841)	\$(248,881)	\$(1,443,672)	\$(1,931,399)	\$-	\$-	\$(4,651,737)

At December 31,  
2015

Carrying amounts

At December 31, 2014	\$ 17,963	\$ 1,595,084	\$ 223,615	\$ 3,641,741	\$ 9,302,975	\$ 58,154,481	\$ 140,603,611	\$ 213,530,000
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At December 31, 2015	\$ 21,609	\$ 1,204,932	\$ 188,917	\$ 3,056,974	\$ 8,484,546	\$ 73,016,156	\$ 377,283,494	\$ 463,250,000
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\*Included in the additions of Assets under construction is \$11,386,094 of borrowing costs

**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

**As at December 31, 2015 and 2014 and**

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The Company's mineral asset, the Gahcho Kué Diamond Mine, is in the development stage. Based on successful permitting and demonstrated technical feasibility and commercial viability of the Gahcho Kué Diamond Mine, in December 2013 the Company commenced capitalizing all development expenditures incurred related to the Gahcho Kué Diamond Mine.

The Company holds a 49% interest in the Gahcho Kué Diamond Mine located in the Northwest Territories, Canada, and De Beers Canada holds the remaining 51% interest. The arrangement between the Company and De Beers Canada is governed by an agreement entered into on July 3, 2009 (the "2009 Agreement").

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:

- The Participants' continuing interests in the Gahcho Kué Diamond Mine 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
- (a) except for normal dilution provisions which are applicable to both Participants. On October 2, 2014, Mountain Province assigned its 49% interest to its wholly-owned subsidiary 2435386 Ontario Inc. to the same extent as if 2435386 Ontario Inc. had been the original party to the Joint Venture Agreement;
  - (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) plus interest compounded on the outstanding amounts in settlement of the Company's share of the agreed historic sunk

costs. At December 31, 2015, the following amounts have not been settled and have not been accrued: \$10 million following the commencement of commercial production (commencement of commercial production means the first day of the calendar month following the first thirty consecutive days (excluding maintenance days) that the relevant Mine has achieved and maintained 70% of rated Production specified in the relevant Feasibility Study); and The balance of approximately \$24.4 million plus accumulated interest of approximately \$25.8 million within 18 months following commencement of commercial production, which is targeted to take place by January 2017. At December 31, 2015, accumulated interest of approximately \$19.1 million. Accumulated interest is being calculated at the prevailing LIBOR rate plus 5%.

2435386 Ontario Inc. 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 payments 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 Mineral Properties.

In 2014 and 2015, the Company and De Beers signed agreements allowing the Operator to utilize De Beers' credit facilities to issue reclamation and restoration security deposits to the federal and territorial governments. In accordance with these agreements, the Company agreed to a 3% fee for the share of the security deposits issued. As at December 31, 2015, the Company's share of the security deposits issued were \$14,378,228 (2014 - \$18,133,951).

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars****8. DECOMMISSIONING AND RESTORATION LIABILITY**

The Gahcho Kué Diamond Mine decommissioning and restoration liability was calculated using the following assumptions as at December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
Expected undiscounted cash flows	\$ 30,571,835		\$ 11,125,600	
Discount rate	2.15	%	2.33	%
Inflation rate	2.02	%	2.00	%
Periods	2028		2028	

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

The continuity of the decommissioning and restoration liability at December 31, 2015 and 2014 is as follows:

	December 31, 2015	December 31, 2014
Balance, beginning of year	\$ 7,996,825	\$ 5,224,662
Change in estimate of discounted cash flows	14,861,675	2,557,952
Accretion recorded during the year	186,326	214,211
Balance, end of the year	\$ 23,044,826	\$ 7,996,825

**9.****LOAN FACILITY**

On April 2, 2015, the Company through its subsidiary 2435572 Ontario Inc. entered into a Loan Facility of US\$370 million with a syndicate of lenders led by Natixis S.A., Scotiabank and Nedbank Ltd. and including ING Capital LLC, Export Development Canada and the Bank of Montreal. On April 29, 2015, Société Générale joined the lender syndicate. The Lenders hold security over the Company's 49% interest in the Gahcho Kué Diamond Mine held through the Company's subsidiaries. The term of the Loan Facility is seven years and the interest rate is U.S. dollar LIBOR plus 5.5 percent. The Loan Facility has a drawdown schedule that commenced on April 7, 2015 and ends on March 31, 2017 to correspond with the projected construction period. When the Company reaches commercial production, it will be subject to certain financial and insurance covenants.

Drawdowns under the Loan Facility are subject to certain conditions, including approval of a quarterly cost to complete report prepared by an independent technical consultant. The Company has funded a Cost Overrun Reserve Account (Note 6), which is restricted to be used to fund potential cost overruns of the project, and use of this account must be approved by the lenders. A cost to complete shortfall would exist if available funding remaining under the Loan Facility is less than the projected costs to completion of the project. Such shortfall would represent a cost overrun. If the Lenders are satisfied that the cost overrun can be funded with amounts in the Cost Overrun Reserve Account then no event of default would have occurred, and the lenders would approve further drawdown against the Loan Facility. If the available resources under the Loan Facility plus the Cost Overrun Reserve Account were insufficient to fund the project to completion, additional funding would be required and no amounts would be available to be drawn until the default was remedied.



**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars**

The Loan Facility will be used to fund the Company's share of the remaining construction cost of the Gahcho Kué Diamond Mine, associated fees, general and administrative costs, interest costs and repayment of \$10 million of sunk costs which become payable to De Beers Canada on achievement of commercial production (Note 7), targeted for in January 2017.

At December 31, 2015, US\$158 million (\$218,672,000 Canadian) was outstanding under the Loan Facility. The loan is carried at amortized cost on the consolidated balance sheet. As at December 31, 2015, financing costs totalling \$29,181,602 consisting primarily of fees payable to the lenders, legal and financial advisory fees, other financing related expenses and commitment fees relating to the Loan Facility have been deferred. The loan amount of \$218,672,000 has been reduced by a pro-rata portion of the deferred financing costs relative to what has been drawn to date, which is being amortized over the life of the Loan Facility using the effective interest method. The resulting balance of financing costs as at December 31, 2015 is \$13,891,403 (December 31, 2014 - \$2,570,914) and will be allocated to future drawdowns and amortized over the life of the Loan Facility using the effective interest rate method. Unamortized deferred financing costs as at December 31, 2015 is \$12,985,317, which is netted against the Loan Facility.

The following table shows the repayment schedule for the Loan Facility:

Year	Principal repayment
2017	US \$24,791,085
2018	93,845,271
2019	100,948,191
2020	46,778,076
2021	63,039,904
2022	40,597,473
Total	US \$370,000,000

Finance costs for the year ended December 31, 2015 were \$10,192,292 (December 31, 2014 and 2013 - \$Nil) and include interest expense calculated using the effective interest method; adjusted for interest paid on interest rate swaps and foreign exchange of the interest paid and accrued. These financing costs have been capitalized to assets under construction.

**10.**

**DERIVATIVE liabilities**

On April 7, 2015, the Company entered into U.S. dollar interest rate swaps to manage interest rate risk associated with the U.S. dollar variable rate Loan Facility (Note 9) and entered into foreign currency forward strip contracts to mitigate the risk that a devaluation of the U.S. dollar against the Canadian dollar would reduce the Canadian dollar equivalent to the U.S. dollar Loan Facility and the Company would not have sufficient Canadian dollar funds to develop the Gahcho Kué Diamond Mine. The interest rate swaps and forward strip contracts are secured on an equal basis with the Loan Facility and documented in the form of International Swaps Derivatives Association Master Agreements.

These derivatives have been classified as “non-hedge derivatives”. Changes in fair value of the interest rate swap and foreign currency forward strip contracts are recognized in the Statement of Comprehensive Loss as gains or losses on derivatives.

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars*****Interest Rate Swap Contracts***

The Company has entered into U.S. dollar floating-to-fixed interest rate swaps intended to economically fix the interest rate on 75% of the outstanding principal of the balance of the Loan Facility based on the forecast loan drawdown schedule up to a maximum of US\$277 million. The interest rate swaps terminate on March 31, 2020. The Company will pay a fixed rate of 1.827% and will receive a variable rate based on the 3 month LIBOR forward curve, reset quarterly. Payments are settled on a quarterly basis in March, June, September, and December of each year.

The table below provides a summary of interest rate swap contracts outstanding as at December 31, 2015:

Period of Interest Rate Contracts	Notional Amount (USD)
January 1, 2016 to December 31, 2016	\$ 224,693,146
January 1, 2017 to December 1, 2017	277,500,000
January 1, 2018 to December 31, 2018	161,932,194
January 1, 2019 to December 31, 2019	41,995,998
January 1, 2020 to March 31, 2020	5,877,827

**Foreign Currency Forward Strip**

On April 7, 2015, the Company executed foreign currency forward strip contracts to buy Canadian dollars and sell U.S. dollars for the period from April 7, 2015 to February 1, 2017 for notional amounts of \$219,125,894 or US\$175,666,949, with a weighted average price of \$1.2474/US\$1 and on July 10, 2015, the Company executed foreign currency forward strip contracts to buy Canadian dollars and sell U.S. dollars for the period from August 4, 2015 to February 1, 2017 for notional amounts of \$54,832,365 or US\$43,130,678, with a weighted average price of \$1.2713/US\$1.

The table below provides a summary of currency contracts outstanding as at December 31, 2015:

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Period of Currency Contracts	Notional Amount (CAD)	Weighted Average Price (USD)	Notional Amount (USD)
January 1, 2016 to December 31, 2016	\$ 130,485,120	\$ 1.2544	\$ 104,024,890
January 1, 2017 to February 1, 2017	10,547,404	1.2447	8,473,595
	\$ 141,032,524	\$ 1.2536	\$ 112,498,485

The following table shows amounts recognized in the Statement of Comprehensive Loss for the year ended December 31, 2015:

	Year ended December 31, 2015
Loss on derivative contracts - currency contracts	\$ (16,437,853 )
Loss on derivative contracts - interest rate swap contracts	(2,970,497 )
Total	\$ (19,408,350 )

**11. SHAREHOLDERS' EQUITY**

i. Authorized share capital

Unlimited common shares, without par value

There is no other class of shares in the Company.

**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

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ii. Share capital

The number of common shares issued and fully paid as at December 31, 2015 is 159,678,833. There are no shares issued but not fully paid.

On March 31, 2015, the Company closed a Rights Offering for gross proceeds of approximately \$95 million. Under the Rights Offering, each registered holder of common shares of the Company as of the record date established as of February 27, 2015, received one right (a "Right") for each share held. 5.69 Rights plus the sum of \$4.00 was required to subscribe for one share ("Rights Share"). The Rights expired on March 30, 2015 (the "Expiry Date") with unexercised Rights becoming void and without value. The Rights were listed on the TSX until their expiry.

The Company entered into a stand-by agreement with Mr. Dermot Desmond an insider of the Company and principal owner of Bottin (International) Investments Ltd. ("Bottin") under which he undertook to fully subscribe for those Rights Shares not otherwise subscribed for on the Expiry Date. Mr. Dermot Desmond fully exercised his rights and received the previously agreed stand by fee of 3%. Mr. Desmond requested that payment be received in common shares of the Company at a price of \$4.00 per common share, which was subject to shareholder approval at the Annual Special Meeting held on June 16, 2015. Shareholder approval was received and on June 25, 2015, Mr. Desmond was issued 712,500 common shares of the Company.

A total of 135,204,550 Rights were exercised by shareholders for 23,761,783 shares.

On October 16, 2014, Mountain Province closed a bought-deal private placement and non-brokered private placement for common shares for gross proceeds of \$100,000,000. Mountain Province issued 20,000,000 common shares at a price of \$5.00 per share. Transaction costs in the amount of \$3,803,500 were paid in relation to the bought-deal private placement and other share issuance costs of \$237,822 were incurred in connection with the private placements.

On June 28, 2014, Mountain Province closed a non-brokered private placement for common shares for gross proceeds of \$45,525,140. Mountain Province issued 9,105,028 common shares at a price of \$5.00 per share. Transaction costs in the amount of \$755,250 were incurred which included 60,000 common shares at a price of \$5.00 per share which were issued and other share issuance costs of \$269,799.

On March 28, 2014, Mountain Province closed a bought-deal private placement and a non-brokered private placement for common shares for gross proceeds of \$28,244,672. Mountain Province issued 5,538,171 common shares at a price of \$5.10 per share. Transaction costs in the amount of \$1,058,942 were paid in relation to the private placements and other share issuance costs of \$150,775 were incurred in connection with the private placements.

On November 27, 2013, Mountain Province closed a non-brokered private placement of common shares for gross proceeds of \$29,446,000. Mountain Province issued 5,889,200 common shares at a price of \$5.00 per share. Transaction costs in the amount of \$567,330 were paid in relation to the private placement and share issuance costs of \$71,169 were incurred in connection with the private placement.

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. As at December 31, 2015, the aggregate maximum number of shares pursuant to options granted under the Plan will not exceed 15,967,883 shares, and there were 12,867,883 shares available to be issued under the Plan. All stock options are settled by the issuance of common shares.

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars**

The following table summarizes information about the stock options outstanding and exercisable:

	December 31, 2015		December 31, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	1,400,000	\$ 5.08	1,200,000	\$ 5.04	794,000	\$ 2.12
Granted during the year	1,700,000	4.18	200,000	5.29	850,000	4.89
Exercised during the year	-	-	-	-	(444,000 )	1.26
Balance at end of the year	3,100,000	\$ 4.58	1,400,000	\$ 5.08	1,200,000	\$ 5.04
Options exercisable at the end of the year	3,033,333	\$ 4.59	1,350,000	\$ 5.11	1,200,000	\$ 5.04

The fair value of the 1,700,000 stock options granted during the year ended December 31, 2015 has been estimated on the date of the grant using the Black-Scholes option pricing model which is consistent with the methodology used in 2014 and 2013. 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. 200,000 stock options were granted in the year ended December 31, 2014 and valued using the assumptions below and 850,000 stock options were granted in the year ended December 31, 2013 and valued using the assumptions below.

	December 31, 2015	December 31, 2014	December 31, 2013
Exercise price	<b>\$3.57 - \$4.66</b>	\$ 5.29	\$4.06 - \$5.28
Expected volatility	<b>34.65% - 37.76 %</b>	38.19 %	42.17% - 44.04 %
Expected option life	<b>5 years</b>	2.70 years	3.00 - 3.50 years
Expected forfeiture	<b>none</b>	none	none
Expected dividend yield	0 %	0 %	0 %
Risk-free interest rate	<b>0.73% - 0.85 %</b>	1.21 %	1.14% - 1.77 %

In the year ended December 31, 2013, 444,000 stock options were exercised for gross proceeds of \$559,440. The market price of stock options exercised during the year ended December 31, 2013 was \$2,261,240.

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, 2015.



**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars**

At December 31, 2015			
Expiry Date	Black-Scholes Value	Number of Options	Exercise Price
January 9, 2016	487,085	150,000	6.13
March 8, 2017	463,500	200,000	4.84
January 31, 2018	133,700	100,000	4.08
March 10, 2018	129,300	100,000	4.06
March 17, 2018	64,250	50,000	4.11
May 13, 2018	156,700	100,000	5.00
July 2, 2018	802,500	500,000	5.28
February 13, 2019	274,600	200,000	5.29
April 13, 2020	1,399,715	885,000	4.66
October 14, 2020	133,220	100,000	4.21
December 10, 2020	805,877	715,000	3.57
	\$ 4,850,447	3,100,000	4.58

The weighted average remaining contractual life of the options outstanding at December 31, 2015 is 3.45 years (December 31, 2014 - 3.06 years). On January 9, 2016, 150,000 options expired.

The share-based payments recognized as an expense for each year are:

	December 31, 2015	December 31, 2014	December 31, 2013
Expense recognized in the year for share-based payments	\$ 2,268,263	\$ 316,018	\$ 1,240,821

The share-based payments expense for the years ended December 31, 2015, 2014 and 2013 is recorded in consulting fees.

iv.

## Loss Per Share

The following table sets forth the computation of basic and diluted loss per share:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
<b>Numerator</b>			
Net loss for the year	\$ (43,168,971	) \$ (4,394,079	) \$ (26,603,938 )
<b>Denominator</b>			
For basic - weighted average number of shares outstanding	153,476,202	113,865,562	94,838,537
Effect of dilutive securities	-	-	-
For diluted - adjusted weighted average number of shares outstanding	153,476,202	113,865,562	94,838,537
<b>Loss Per Share</b>			
Basic	\$ (0.28	) \$ (0.04	) \$ (0.28 )
Diluted	\$ (0.28	) \$ (0.04	) \$ (0.28 )

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars**

For the year ended December 31, 2015, stock options totaling 3,100,000 (2014 – 1,400,000 stock options; 2013 – 1,200,000 stock options) are not included in the calculation of diluted earnings per share since to include them would be anti-dilutive.

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.

**12. INCOME TAXES**

***Rate Reconciliation***

The provision for income tax differs from the amount that would have resulted by applying the combined Canadian statutory income tax rates of approximately 26.5% (2014 and 2013 – 26.5%):

	December 31, 2015		December 31, 2014		December 31, 2013
Loss before income taxes	\$ (43,168,971	)	\$ (4,394,079	)	\$ (26,603,938
	26.5	%	26.5	%	26.50
					%
Tax recovery calculated using statutory rates	(11,439,777	)	(1,164,431	)	(7,050,044
Expenses not deductible (earnings not taxable)	5,260,128		84,395		329,796

Change in tax benefits not recognized	6,179,649	1,080,036	6,720,248
Income tax expenses (recovery)	-	-	-

*Unrecognized deferred tax assets*

Deductible temporary differences for which no deferred tax assets have been recognized are attributable to the following:

	December 31, 2015	December 31, 2014
Property and equipment	\$ 64,840,744	\$ 98,060,747
Decommissioning and restoration liability	23,044,826	7,996,825
Loss carryforwards	29,839,942	1,487,695
Share and debt issuance cost	16,864,018	6,417,087
Loan facility	5,976,483	-
Derivative liabilities	17,241,753	-
	\$ 157,807,766	\$ 113,962,354

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars**

As at December 31, 2015, the Company had the following non-capital losses available for carry forward and certain other tax attributes as follows:

	Amounts	Expiry Date
Tax basis of property and equipment	\$ 506,675,395	Indefinite
Capital loss carryforwards	\$ 2,166,000	Indefinite
Non-capital loss carryforwards	\$ 27,673,942	2026-2035

**13.****RELATED PARTIES**

The Company's related parties include the operator of the Gahcho Kué Diamond Mine, Dermot Desmond, Bottin, key management and their close family members, and the Company's directors. Kennady Diamonds Inc. ("Kennady Diamonds") is also a related party since the Company and Kennady Diamonds have common members of key management.

Related party transactions are recorded at their exchange amount, being the amount agreed to by the parties. Outstanding balances are settled in cash.

The Company had the following transactions and balances with its related parties including key management personnel including the Company's directors, Dermot Desmond, Bottin, the operator of the Gahcho Kué Diamond Mine, and Kennady Diamonds. The transactions with key management personnel are in the nature of remuneration. The transactions with the operator of the Gahcho Kué Diamond Mine relate to the funding of the Company's interest in the Gahcho Kué Diamond Mine for the current year's expenditures, capital additions and management fee. The transactions with Kennady Diamonds are for a monthly management fee charged by the Company and reimbursement of expenses paid on behalf of Kennady Diamonds.

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As discussed in Note 11, the Company issued 712,500 common shares or the equivalent of \$2,850,000 to Mr. Dermot Desmond as a standby fee.

The balances as at December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Payable to the operator of the Gahcho Kué Diamond Mine*	\$ 1,210,408	\$ 1,345,183
Receivable from Kennady Diamonds	8,475	-
Payable to key management personnel	-	398,895

\*included in accounts payable and accrued liabilities

The transactions for the year ended December 31, 2015, 2014 and 2013 were as follows:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
The total of the transactions:			
Kennady Diamonds	\$ 90,000	\$ 90,000	\$ 152,500
Remuneration to key management personnel	3,843,355	1,426,256	2,457,759
Management fee charged by the operator of the Gahcho Kué Diamond Mine	6,522,109	4,067,683	1,113,848

**MOUNTAIN PROVINCE DIAMONDS INC.****Notes to Consolidated Financial Statements****As at December 31, 2015 and 2014 and****For the Years Ended December 31, 2015, 2014 and 2013****In Canadian Dollars**

The remuneration expense of directors and other members of key management personnel for the year ended December 31, 2015, 2014 and 2013 were as follows:

	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Consulting fees, director fees, bonus and other short-term benefits	\$ 1,575,092	\$ 1,110,238	\$ 1,216,938
Share-based payments	2,268,263	316,018	1,240,821
	\$ 3,843,355	\$ 1,426,256	\$ 2,457,759

In accordance with International Accounting Standard 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.

**14. EXPLORATION AND EVALUATION COSTS**

	December 31, 2015	December 31, 2014	December 31, 2013
Camp support and personnel	\$ -	\$ -	\$ 1,001,910
Transportation and fuel	-	-	1,871,771
Drilling	32,001	1,508,329	990,223
Permitting	-	-	3,469,838
Safety, health and environmental costs	-	-	44,574
De Beers overhead	-	-	1,866,632
Engineering, procurement and construction management	-	-	12,483,069
Other	-	-	109,066
Total	\$ 32,001	\$ 1,508,329	\$ 21,837,083

**15.**

**CAPITAL MANAGEMENT**

The Company considers its capital structure to consist of share capital, share-based payments reserve, and net of deficit. The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support the acquisition, exploration and development of mineral properties. 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 Diamond Mine, is in the development 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.



**MOUNTAIN PROVINCE DIAMONDS INC.**

**Notes to Consolidated Financial Statements**

**As at December 31, 2015 and 2014 and**

**For the Years Ended December 31, 2015, 2014 and 2013**

**In Canadian Dollars**

The Company's capital is summarized as follows:

	December 31, 2015	December 31, 2014
Share capital	\$472,285,993	\$377,614,185
Share-based payments reserve	4,775,687	2,507,424
Deficit	(168,380,683)	(125,211,712)
	\$308,680,997	\$254,909,897

There were no changes in the Company's approach to capital management during the year ended December 31, 2015. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

**16. SEGMENTED REPORTING**

The Company has determined that it has only one operating segment.

**17. PRIOR YEAR BALANCES**

Certain prior year balances have been reclassified to conform to current year presentation.