

MOUNTAIN PROVINCE DIAMONDS INC
Form 20-F
June 30, 2006

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 March 31, 2006

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 0-27322

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)

220 Bay Street, 14th Floor, Toronto, Ontario Canada M5J 2W4
(Address of principal executive offices)

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

None

Not Applicable

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

Common shares without par value
(Title of Class)

(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.

53,075,847

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 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 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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GLOSSARY

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

AK Property means the claims known as the "AK claims" held by MPV;

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

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 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 Exploration Inc., formerly known as Monopros Limited, a wholly-owned subsidiary of De Beers;

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

Gahcho Kué Project, located at Kennady Lake, is the aboriginal name for the Kennady Lake Project involving the diamondiferous kimberlite bodies in Kennady Lake located on the AK leased claims;

Glenmore means Glenmore Highlands Inc., a company incorporated under the *Business Corporations Act (Alberta)* and which, pursuant to the Arrangement, has 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;

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;

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

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

MPV, 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;

NASD OTCBB means the National Association of Securities Dealers over-the-counter bulletin board;

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

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

(a) is an engineer or geoscientist with a least five years experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these;

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

(c) is a member in good standing of a professional association (as that term is defined in Canadian National Instrument 43-101);

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

Sight means an invitation to purchase a certain amount of rough diamonds ten times a year from the De Beers' Diamond Trading Company in London;

Sightholder means a diamantaire who purchases rough diamonds directly from the De Beers' Diamond Trading Company;

TSX means the Toronto Stock Exchange; and

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

GLOSSARY OF TECHNICAL TERMS

- Adit** A horizontal or nearly horizontal passage driven from the surface for the working of a mine.
- Archean** The earliest eon of geological history or the corresponding system of rocks.
- Area of Interest** 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 u l k Sample** Evaluation program of a diamondiferous kimberlite pipe in which a large amount of kimberlite (at least 100 tonnes) is recovered from a pipe.
- Carat** 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.
- Caustic Fusion** 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.
- Craton** 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.
- Diabase** A fine-grained rock of the composition of gabbro but with an ophitic texture.
- Dyke** A body of igneous rock, tabular in form, formed through the injection of magma.
- Feasibility Study** 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.
- Gneiss** 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.
- Indicator mineral** Minerals such as garnet, ilmenite, chromite and chrome diopside, which are used in exploration to indicate the presence of kimberlites.

Jurassic 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.

Kimberlite 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).

Macrodiamond A diamond, two dimensions of which exceed 0.5 millimeters.

Microdiamond Generally refers to diamonds smaller than approximately 0.5mm, which are recovered from acid dissolution of kimberlite rock.

Mineral Reserve 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") STANDARDS ON MINERAL RESOURCES AND MINERAL RESERVES DEFINITIONS AND GUIDELINES ADOPTED BY THE CIM COUNCIL ON AUGUST 20, 2000. 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 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 Canadian 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 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 Canadian 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 Standards, Mineral Resource is 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.

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 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 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 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 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 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 intrusion which is sandwiched between layers in the host 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:

§ risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits;

§ results of initial feasibility, pre-feasibility and feasibility studies, and the possibility that future exploration, development or mining results will not be consistent with the Company's expectations;

§ mining exploration risks, including risks related to accidents, equipment breakdowns or other unanticipated difficulties with or interruptions in production;

§ the potential for delays in exploration activities or the completion of feasibility studies;

§ risks related to the inherent uncertainty of exploration and cost estimates and the potential for unexpected costs and expenses;

§ risks related to commodity price fluctuations;

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

§ risks related to failure to obtain adequate financing on a timely basis and on acceptable terms;

§ risks related to environmental regulation and liability;

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

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

Some of the important risks and uncertainties that could affect forward looking statements as are described further in this document 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.

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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 and the Canadian filing does not include the financial statements and exhibits listed herein. Canadian investors should refer to the annual financial statements of the Company as at March 31, 2006, which are incorporated by reference herewith, as filed with the applicable Canadian Securities regulators on SEDAR (the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval) under "Audited Annual Financial Statements - English".

METRIC EQUIVALENTS

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

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

PART I**Item 1. Identity of Director, Senior Management and Advisors**

Not Applicable

Item 2. Offer Statistics and Expected Timetable

Not Applicable

Item 3. Key Information**A. Selected financial data.**

The selected financial data set forth below should be read in conjunction with Item 5 - Operating and Financial Review and Prospects, and in conjunction with the consolidated financial statements and related notes of the Company included under Item 17, "Financial Statements." The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Material measurement differences between accounting principles generally accepted in Canada and the United States, applicable to the Company, are described in Note 10 to the consolidated financial statements. The Company's financial statements are set forth in Canadian dollars.

The following chart summarizes certain selected financial information for the Company as at and for its fiscal years ended March 31, 2006, 2005, 2004, 2003 and 2002. Except as otherwise indicated, dollar amounts presented are equivalent under Canadian and United States generally accepted accounting principles.

| All in CDN\$1,000's except Earnings (loss) per Share and Number of Common Shares | 12 Months Ended March 31, | | | | |
|--|---------------------------|--------|---------|----------|---------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Operating Revenue | nil | nil | nil | nil | nil |
| Interest Revenue | 12 | 13 | 12 | 19 | 18 |
| Working Capital | 808 | 1,041 | 701 | 1,037 | 340 |
| Net Earnings (loss) - | | | | | |
| Under Canadian | | | | | |
| GAAP: | (2,200) | 1,531 | (1,813) | (1,713) | (1,456) |
| Under U.S. GAAP: | (1,948) | 1,836 | (1,223) | (14,513) | (1,520) |
| Basic and diluted | | | | | |
| earnings (loss) per | | | | | |
| share - | | | | | |
| Under Canadian | | | | | |
| GAAP: | (0.04) | 0.03 | (0.04) | (0.03) | (0.03) |
| Under U.S. GAAP: | (0.04) | 0.04 | (0.02) | (0.29) | (0.03) |
| Total Assets - | | | | | |
| Under Canadian | | | | | |
| GAAP: | 34,874 | 36,038 | 33,514 | 34,418 | 33,947 |

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| | | | | | |
|-------------------|------------|------------|-------------|--------------|--------------|
| Under U.S. GAAP: | 3,419 | 3,683 | 1,030 | 1,363 | 13,618 |
| Total Liabilities | 181 | 95 | 273 | 240 | 324 |
| Share Capital | | | | | |
| Under Canadian | | | | | |
| GAAP: | 58,253 | 57,608 | 56,595 | 55,719 | 53,470 |
| Under U.S. GAAP: | 58,233 | 57,587 | 56,595 | 55,719 | 53,470 |
| Net Assets - | | | | | |
| Under Canadian | | | | | |
| GAAP: | 34,693 | 35,943 | 33,241 | 34,178 | 33,623 |
| Under U.S. GAAP: | 3,238 | 3,588 | 757 | 1,123 | 13,294 |
| Number of Common | | | | | |
| Shares issued | 53,075,847 | 52,610,847 | *51,202,111 | 66,597,766 | 63,883,100 |
| less shares owned | | | | | |
| by subsidiary | - | - | - | (16,015,696) | (16,015,696) |
| | 53,075,847 | 52,610,847 | 51,202,111 | 50,582,070 | 47,867,404 |

*The 16,015,696 shares held by Mountain Glen, were cancelled and returned to treasury on March 30, 2004.

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

Currency and Exchange Rates

All dollar amounts set forth in this report are in Canadian dollars, except where otherwise indicated. The following tables set forth, for the five most recent financial years, (i) the average rate (the "Average Rate") of exchange for the Canadian dollar, expressed in U.S. dollars, calculated by using the average of the exchange rates on the last day for which data is available for each month during such periods; and (ii) the high and low exchange rate during the previous six months, in each case based on the noon buying rate in New York City for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York.

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

| 2006 | 2005 | 2004 | 2003 | 2002 |
|-------------|-------------|-------------|-------------|-------------|
| US\$0.8376 | US\$0.7842 | US\$0.7412 | US\$0.6474 | US\$0.6380 |

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

| Month | High | Low |
|---------------|-------------|------------|
| December 2005 | 0.8751 | 0.8508 |
| January 2006 | 0.8794 | 0.8479 |
| February 2006 | 0.8809 | 0.8610 |
| March 2006 | 0.8850 | 0.8513 |
| April 2006 | 0.8959 | 0.8496 |
| May 2006 | 0.9134 | 0.8869 |

On June 15, 2006, the noon buying rate in New York City for cable transfer in Canadian dollars as certified for customer purposes by the Federal Reserve Bank of New York (the "Exchange Rate") was \$1 Canadian = US\$0.89509.

B. *Capitalization and indebtedness.*

Not Applicable

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

Not Applicable

D. *Risk factors.***Risks of Exploration and Development**

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.

(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 development of all companies. This limited operating history leads the Company to believe that period-to-period comparisons of its operating results may not be meaningful and that the results for any particular period should not be relied upon as an indication of future performance.

(b)

Speculative business

Resource exploration and 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 are required to be sold to The Diamond Trading Co., a wholly-owned subsidiary of De Beers, as per the Monopros Joint Venture Agreement (see Item 4D - Property, plant and equipment - Principal Properties - The AK Property), 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 of business.

The Company currently has no significant source of operating cash flow. The Company has limited financial resources. The Company's ability to achieve and maintain profitability and positive cash flow is dependent upon the Company's ability to generate revenues.

(d) Exploration and Development

The Company's properties are primarily in the advanced exploration and permitting stage. There are no estimates of reserves. Estimates of mineral deposits, development plans and production costs, when made, can be affected by such factors as environmental permit regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of diamonds ultimately discovered may differ from that indicated by bulk sampling results.

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. De Beers Canada is now paying for all exploration of the AK Property, and will also be paying for all development of the AK Property and, with regard to that property, there is currently no risk to the Company in respect of the further exploration, permitting and development costs. Any separate and additional exploration done by the Company on its other properties may not result in discovery of any diamondiferous kimberlite.

(e) History of Losses

The Company has a history of losses and may continue to incur losses for the foreseeable future. During the years ended March 31, 2006, 2005, and 2004, the Company incurred net earnings (loss) during each of the following periods:

\$2.200 million net loss for the year ended March 31, 2006.

\$1.531 million net earnings for the year ended March 31, 2005 (relating primarily to gain on sale of the Haveri project to Northern Lion Gold Corp).

\$1.81 million loss for the year ended March 31, 2004.

As of March 31, 2006, the Company had an accumulated deficit of \$24.122 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 Company, has only a history of losses. The Company has paid no dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future.

(f) Recoverability of capitalized mineral property costs

The recoverability of the amounts capitalized for mineral properties in the Company's consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles, 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.

(g) Additional Funding Requirements

As of March 31, 2006, the Company had cash and cash equivalents of approximately \$0.845 million and working capital of approximately \$0.808 million. During the past three fiscal years ended March 31, 2006, the Company has used approximately \$2.605 million in cash flows in operating activities including approximately \$0.727 million during the fiscal year ended March 31, 2006, \$0.858 million during the fiscal year ended March 31, 2005 and \$1.020 million during the fiscal year ended March 31, 2004.

The Company's administrative and other expenses are expected to be approximately \$0.7 million for the next year. The Company has sufficient working capital for administrative purposes for the next year, but may need to raise additional capital should it participate in exploration programs or undertake independent studies. The Company may be required to raise additional capital through equity and/or debt financings on terms that may be dilutive to its shareholders' interests in the Company or to the value of their common shares. The Company may consider debt financing, joint ventures, production sharing arrangements, disposing of properties or other arrangements to meet its capital requirements in the future. Such arrangements may have a material adverse affect on the Company's business or results of operations.

(h) No Proven Reserves

The properties in which the Company has an interest, or the concessions in which the Company has the right to earn an interest, are all in the advanced exploratory and permitting stage and at this point, there are only indicated and inferred resources in four kimberlite bodies in Kennady Lake. See Item 4D - Property, plants and equipment - Principal Properties. The Company has not yet determined whether its mineral properties contain mineral reserves that are economically recoverable. Failure to discover economically recoverable reserves will require the Company to write-off costs capitalized in its financial statements.

(i) Title Matters

While the Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties and properties in which it has the right to acquire or earn an interest are in good standing, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects.

(j) Diamond Prices

The market for rough diamonds is subject to strong influence from the world's largest diamond producing company, De Beers, of South Africa, and from The Diamond Trading Co., (formerly known as the Central Selling Organization), a marketing agency controlled by De Beers. The price of diamonds dropped sharply after September 11, 2001 and has now recovered, but future prices cannot be predicted. Over the past three years, diamond prices have increased on average by approximately 15%. Current trends suggest an over demand for rough diamonds in the near to mid-term.

(k) Compliance 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 production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company's exploration activities and its potential mining and processing operations in Canada are subject to various 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 operations and exploration 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 or mining project 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 amount.

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.

To the best of the Company's knowledge, the Company is operating in compliance with all applicable environmental regulations.

(l) Climate and Transportation

The AK Property is subject to climate and transportation risks because of its remote northern location. Such factors can add to the cost of exploration, development and operation, thereby affecting costs and profitability.

(m) Joint Venture Partner

The Company, and the success of the AK Property, is dependent on the efforts, expertise and capital resources of joint venture partner De Beers Canada and its parent De Beers. De Beers Canada is the project operator and is responsible for exploring, permitting, developing and operating the AK Property. The Company is dependent on De Beers Canada for accurate information about the AK Property and the progress of exploration, permitting and development. Both De Beers Canada and the Company agreed on March 8, 2000 that it was unlikely that the agreed upon rate of return would be achieved from mining the 5034, Hearne and Tuzo pipes using the conventional open pit method. As a result, the Company and De Beers Canada agreed that De Beers would conduct a desktop study examining the costs of both open-pit and underground mining scenarios.

The results of the desktop study were presented on August 4, 2000 to the board of directors of the Company. The study showed that the modeled rate of return for the mining of the three main diamond pipes was below the agreed upon rate of return needed to proceed to the next phase, but sufficiently close to only require an increase in diamond revenues of approximately 15% to achieve the agreed upon rate. A management committee was constituted and it was decided that the best options to advance the project were an additional bulk sample and additional exploration. The bulk sample was completed in May 2001 and the exploration in June 2001. The final results were reported on December 18, 2001 and were encouraging enough for De Beers to commit to another bulk sample in the winter of 2002. The results of the 2002 bulk sample program of the Hearne and 5034 pipes were reported in April 2003 and the

results of the updated desk top study two weeks later. Even though the study showed that estimated capital costs had increased only slightly and that the estimated operating costs had dropped significantly, the effect of lower diamond values (especially for the Hearne pipe) and a lower US dollar against the Canadian dollar since the 2000 desktop study, had resulted in an internal rate of return (IRR), which was well below the agreed hurdle rate. Combined with the then current geo-political environment and uncertainties, De Beers decided to postpone a pre-feasibility decision until the following year when the desktop study would be updated again. In the meantime, De Beers would continue with exploration in the Kelvin-Faraday area with an objective of adding to the existing resource.

However, at the end of July 2003, De Beers notified the Company that they had started work on a detailed cost estimate of a pre-feasibility study of the Gahcho Kue project. They based their decision on the improving geo-political and economic conditions which supported confidence in longer-term diamond price projections. In November 2003, the board of directors of De Beers approved a budget of approximately \$25 million for a pre-feasibility study which started in January 2004. The first phase of the study was completed in June 2004.

The pre-feasibility study was completed in mid-2005. The projected profitability levels were sufficiently encouraging 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 a definitive feasibility study. On July 11, 2005, De Beers reported an increase in the modeled value of the diamonds for the Gahcho Kue project with the modeled values increasing by approximately 6, 7 and 8 percent for the Tuzo, Hearne and 5034 pipes respectively.

On July 25, 2005, the Joint Venture announced that De Beers had approved a budget of \$38.5 million for the environmental assessment and permitting process and for an advanced exploration program. On November 29, 2005, it was announced that the Joint Venture had submitted an application with the Mackenzie Valley Land and Water Board for permits required to construct and operate a diamond mine at Gahcho Kue. The permit applications have been submitted to the Mackenzie Valley Environmental Impact Review Board for an environmental assessment.

On January 12, 2006, the Joint Venture announced details of the advanced exploration program which commenced in February 2006 and was projected to be completed by May 2006.

(n) Operating Hazards and Risks

Diamond exploration involves many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damage to property and possible environmental damage. The Company maintains insurance policies relating to Director's and Officer's liability, but can give no guarantees that such insurance will be sufficient to protect the Company from losses.

(o) Numerous factors beyond the control of the Company 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 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.

(p) 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.

(q) Competition

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. The Company is required under the Monopros Joint Venture Agreement (see Item 4B - Information on the Company - Business Overview) to sell its rough diamonds at a price that is reflective of the market price, to The Diamond Trading Co., a wholly-owned subsidiary of De Beers, which controls approximately 60% of the diamond market. There is therefore no competition for diamonds produced from the Company's properties. The Company only competes in the acquisition of new properties.

(r) Financing Risks

The Company's current operations do not generate any cash flow. If the Company seeks additional equity financing, the issuance of additional shares will dilute the interests of the Company's current shareholders. The degree of the dilution would depend on the number of new shares issued and the price at which they are issued. The Company has successfully raised funds in recent years through share, option and warrant issuances. As at June 15, 2006, the Company had approximately \$1.4 million in cash, and the Company does not anticipate having to seek new equity financing for the next 12 months.

(s) Dilution from Outstanding Securities

As at June 15, 2006, there were 505,000 options at prices ranging from \$0.67 to \$4.50 (expiring at various dates), and nil warrants outstanding. The stock options, if fully exercised, would increase the number of shares outstanding by 505,000. Such options, if fully exercised, would constitute approximately 0.93% (out of 54,135,847 shares (53,630,847 issued and outstanding, plus total options) respectively) of the Company's resulting share capital as at June 15, 2006. It is unlikely that 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 immediate dilution to existing shareholders.

(t) Conflicts of Interest

At the present time, except to the extent that Patrick Evans and Jennifer Dawson have Consulting Agreements with the Company (see Item 6C - Board Practices), none of the officers and directors are in a position of conflict of interest. However, 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. The directors of the Company are required by law to act honestly and in good faith with a view to the best interest of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the director will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

(u) Dependence on Key Management Employees

The nature of the Company's business, its ability to continue its exploration and development 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 its key management figure, Patrick Evans, who has a Consulting Agreement with the Company: See, Item 7B -Related party transactions, Item 6C - Board Practices, and Item 10C- Material Contracts. 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.

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(v) Fluctuations in Company Stock Prices

Prices for the Company's shares on the TSX and on the Amex, have been extremely volatile. The price for the Company's common shares on the TSX ranged from \$2.15 (low) and \$4.96 (high) during the fiscal year ended March 31, 2006, and from \$1.60 (low) to \$2.68 (high) during the fiscal year ended March 31, 2005. Any investment in the Company's securities is therefore subject to considerable fluctuations in value.

(w) Currency Rate Fluctuations

Feasibility and other studies conducted to evaluate the Company's properties are 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.

(x) The Mineral resources industry is intensely competitive and the Company competes with many companies that have greater financial means and technical facilities.

The mineral resources industry is intensely competitive and the Company competes with many companies that have greater financial means and technical facilities. Significant competition exists for the limited number of mineral acquisition opportunities available. As a result of this competition, the Company's ability to acquire additional attractive mining properties, should it decide to do so in the future, on terms it considers acceptable may be adversely affected.

(y) De Beers Support

The exploration of the AK Property has been primarily funded by De Beers, and De Beers Canada has made an equity investment in the Company. However, there is no assurance that the level of support provided by De Beers will continue in the future.

General

As the Company is a Canadian company it may be difficult for U.S. shareholders of the Company to effect service on the Company or to realize on judgments obtained against the Company in the United States. Some of its directors and officers are residents of Canada and a significant part of its 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 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 its 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 resident executive officers or directors.

Item 4. Information on the Company

A. *History and development of the company.*

The Corporate Organization

The Registrant, 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 reflect 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* (the "Old Act") and was engaged in the exploration of precious and base mineral resource properties until the date of the MPV Amalgamation. Prior to the date of the MPV Amalgamation, Old MPV held an undivided 50% interest in the AK-CJ Properties and an interest in each of the other properties which are currently held by MPV, as described below.

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

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

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

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, these companies became wholly-owned subsidiaries of the Company.

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

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

Mountain Glen was voluntarily dissolved on August 4, 2004.

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

The Company is domiciled in Canada.

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

| Name of Subsidiary | Date of Incorporation | Jurisdiction of Incorporation |
|----------------------------|------------------------------|--------------------------------------|
| Baltic Minerals BV | Friday, January 26, 1996 | The Netherlands |
| Baltic Minerals Finland OY | Wednesday, May 18, 1994 | Finland |

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

The Company's registered, records and executive office is at 220 Bay Street, 14th Floor, Toronto, Ontario, Canada M5J 2W4. The Company's administrative and executive office is at 220 Bay Street, 14th Floor, Toronto, Ontario, Canada M5J 2W4, the telephone number is (416) 361-3562, and the fax number is (416) 603-8565.

The Company's initial public offering on the Vancouver Stock Exchange ("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 Toronto Stock Exchange ("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 Canadian Venture Exchange ("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 Amex under the symbol MDM. Prior to April 4, 2005 the Company's shares traded on the OTCBB under the symbol "MPVI". The Company is also registered extra-provincially in Manitoba, Saskatchewan, and the Northwest Territory, and is a reporting issuer in British Columbia, Ontario and Alberta. The Company files reports in the United States pursuant to Section 13 of the Securities Exchange Act of 1934, as amended.

Principal Capital Expenditures and Divestitures

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

Takeover offers

There were no public takeover offers by third parties in respect of the Company's 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 is not considered to be a property that is 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 are subject to a two-year hold period and volume restrictions on re-sale thereafter.

B.

Business overview.

1.1 Introduction

The Company is a natural resource property exploration and development company. The Company has interests in several natural resource properties, the most significant and principal property being a 44.1% interest in the AK Property located in the Northwest Territories. See "Item 4D - Property, plants and equipment".

The Company, as yet, does not have any commercially viable resource properties. Permitting, bulk sampling and drilling continues on the AK Property.

1.2 Historical Corporate Development

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 Claims 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 "Monopros Joint Venture Agreement") with Monopros, a wholly-owned subsidiary of De Beers, and now known as De Beers Canada, to develop the AK-CJ Properties. This agreement provided that De Beers Canada could earn up to a 60% interest in the project by conducting exploration and bulk sampling on one or more new kimberlite deposits. As well, De Beers Canada is required to complete a feasibility study and fund development and construction of a commercial-scale mine.

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 1044 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 Ventures Inc. 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.

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 cost estimate of a pre-feasibility study of the Kennady Lake diamond deposits. They based their decision on the improving geo-political and economic conditions which supported confidence in longer-term diamond price projections. In November 2003, the board of directors of De Beers approved a budget of approximately \$25 million for a pre-feasibility study which started in January 2004.

The pre-feasibility study was completed in mid-2005. The projected profitability levels were sufficiently encouraging 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 a definitive feasibility study. On July 11, 2005, De Beers reported an increase in the modeled value of the diamonds for the Gahcho Kue project with the modeled values increasing by approximately 6, 7 and 8 percent for the Tuzo, Hearne and 5034 pipes respectively.

On July 25, 2005, the Joint Venture announced that De Beers had approved a budget of \$38.5 million for the environmental assessment and permitting process and for an advanced exploration program. On November 29, 2005, it was announced that the Joint Venture had submitted an application with the Mackenzie Valley Land and Water Board for permits required to construct and operate a diamond mine at Gahcho Kue. The permit applications have been submitted to the Mackenzie Valley Environmental Impact Review Board for an environmental assessment.

On January 12, 2006, the Joint Venture announced details of the advanced exploration program which commenced in February 2006 and was projected to be completed by May 2006.

For further particulars, reference should be made to Item 4D - Property, plants and equipment - Principal Properties - Resource Properties.

As of June 30, 2000, the Company, through the amalgamation of its wholly-owned subsidiary, Mountain Glen, with Glenmore, acquired the principal properties of Glenmore, namely, the Haveri and Sirkka gold properties, which are located in Finland, and indirect interests in the Telegraph and Springtime Property located the United States. The Sirkka, Telegraph and Springtime claims all lapsed in 2002/2003. The Company's interests in the Ketz River Property and Molanosa Projects have also lapsed. The Company has a 50% interest (acquired pursuant to an option/joint venture agreement with Opus Minerals Inc., now known as First Strike Diamonds Inc. on July 13, 1998) in claims held by Opus Minerals Inc. in the northern end of the Baffin Island. The property values for these claims have been written off and the Baffin Island property is no longer of interest to the Company. The Company also acquired a group of seven claims in northeastern Manitoba on March 20, 2001. Five of the seven claims lapsed in 2003, and the remaining two, in 2004. The Company does not regard the properties, other than the AK Property, as

material, and they are only briefly discussed in this annual report. The Haveri property was joint-ventured with Northern Lion Gold Corp. (formerly known as Vision Gate Ventures Limited) and in October 2004, the Company's remaining 30% interest in the Haveri property was exchanged with Northern Lion Gold Corp for 4,000,000 of the latter's common shares. For further particulars, reference should be made to Item 4D - Property, plants and equipment - Other Properties.

Foreign Assets

Until the Arrangement with Glenmore Highlands Inc., with the exception of the Maris Project (which has been dropped because the claims have lapsed) all of the Company's assets were located in Canada (see Item 4D - Property, plants and equipment - Principal Properties). Since the Arrangement, the Company has not generated any revenue from operations. Pursuant to the Arrangement, the assets of Glenmore, including properties in Finland, were acquired by Mountain Glen, and are now held by the Company, pursuant to the winding up of Mountain Glen's affairs. The Haveri Gold Property in Finland has now been transferred to Northern Lion Gold Corp. (formerly Vision Gate Ventures Limited). See Item 4A - History and development of the Company - Acquisitions and Dispositions.

Competition

Competition exists from other mining exploration and development companies in respect of the acquisition of new natural resource properties. Many of the mining companies with which the Company competes have operations and financial strength many times that of the Company. Competition could adversely affect the Company's ability to acquire suitable properties or prospects for exploration in the future.

The Company is contractually bound to sell its diamonds from the AK-CJ Properties to The Diamond Trading Co., pursuant to the terms of the Monopros Joint Venture Agreement (see Item 4B - Business Overview - Description of Business - Historic Corporate Development). The Diamond Trading Company in turn sells its rough diamonds to their customers.

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 related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company's exploration activities and its potential mining and processing operations in Canada are subject to various laws governing land use, the protection of the environment, prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters.

In most jurisdictions, mining is regulated by conservation laws and regulations. In the Northwest Territories, the mining industry operates primarily under Canadian federal law because the ownership of water, fisheries, and surface and sub-surface rights to land are vested in the federal government. Accordingly, federal legislation governs prospecting, development, production, environmental protection, exports, and collective bargaining. Matters of a purely local or territorial nature, such as mine safety standards, the establishment of a minimum wage, education and local health services are matters for the Territorial government. With respect to environmental matters, the Company's properties are subject to federal regulation under, *inter alia*, the *Canadian Environmental Protection Act*, the *Fisheries Act*, the *Northwest Territories Waters Act*, the *Arctic Waters Pollution Prevention Act*, the *Navigable Waters Protection Act*, the *Mackenzie Valley Resource Management Act* and the *Mackenzie Valley Land Use Regulations*. Territorial environmental legislation may also apply for some purposes. The Mackenzie Valley Land and Water Board established under the federal *Mackenzie Valley Resource Management Act* has the responsibility to receive and to process applications for water licenses under the *Northwest Territories Waters Act* in most areas of the Northwest Territories. These licenses outline the volume of water the mine may use, how tailings will be treated, the quality and types of waste that may be deposited into the receiving environment and how the quality and types of waste may be monitored and contain requirements regarding the restoration of the tailings disposal and other affected areas. The Mackenzie Valley Land and Water Board also issues land use permits applicable to most areas of the Northwest

Territories under the *Mackenzie Valley Land Use Regulations*. Such permits govern the manner in which various development activities on federal Crown and other lands may be undertaken. Applicable territorial legislation and regulations include the *Apprentice and Trade Certification Regulations*, *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*, *Wildlife Act* and *Workers Compensation Act*.

The *Fisheries Act*, *Northwest Territories Waters Act*, *Territorial Lands Act*, *Mackenzie Valley Land Use Regulations*, *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 or mining project which the Company might undertake.

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

C. *Organizational structure.*

See Item 4A - 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, which is located in the Northwest Territories, which is in the permitting and advanced exploration stage and there are no reserve estimates at this time. All other estimates have been made at De Beers and De Beers Canada.

A "mineral resource" as defined under the Canadian Institute of Mining and Metallurgy Guidelines (the "CIM Guidelines"), which are different from the SEC guidelines (the "SEC Guidelines") set forth in Guide 7 under Item 802 of Regulation S-K, 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.

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 Canadian Standards as required by Canadian law for disclosure of material facts.

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". No such reserves, as defined in the SEC Guidelines or as defined in the CIM Guidelines, have been determined to exist at the present time.

Readers should read the Independent Qualified Person's Review and Technical Report dated as of June 16, 2003 (the "Technical Report") entitled "Gahcho Kué, Northwest Territories, Canada" prepared for the Company by Malcolm L. Thurston, Ph.D., M.Ausimm, which Technical Report is incorporated herewith by reference. The Technical Report has been filed with the Securities Exchange Commission in the United States and filed with the relevant Securities Commissions in Canada on SEDAR.

Description of Property

Administrative Offices

The Company's administrative office is located at 220 Bay Street, 14th Floor, Toronto, Ontario, Canada M5J 2W4. The Company considers these premises suitable for current needs.

Mineral Properties

Of the Company's properties, the AK Property is currently under the most intense development because of the discovery of the Kennady Lake Kimberlite Field and is considered to be the Company's only principal property.

Location and Access

The AK Property, located in the Mackenzie District of the Northwest Territories, is centred near 63 ' north and 109° 30' west. It is situated between Fletcher Lake and Walmsley Lake to the east, Kirk Lake to the north, and Margaret Lake to the west. The property lies 150 kilometers south-southeast of the main Dia Met Minerals Ltd. ("Dia Met") and BHP Diamonds Inc. ("BHP") discoveries at Lac de Gras and 275 kilometers east-northeast of Yellowknife. The major prospects are in the area of Kennady Lake.

A multitude of lakes provide access for ski and float equipped aircraft. A dock is available on Kennady Lake. The Echo Bay Mines' winter road to the Lupin mine site runs from Yellowknife along MacKay Lake, which is about 70 kilometers northwest of Kennady Lake.

Topography, Vegetation and Climate

The property lies in the treeless tundra of the "barren lands" some 290 kilometers south of the Arctic Circle, and much of the area is lake and muskeg covered. The climate is extreme with -45°C temperatures. Winter winds can create extreme wind chill factors and extensive drifting snow. However, average annual snowfall rarely exceeds one meter, most of which falls during autumn and spring storms. Ice-up and break-up occupy most of September and June, respectively, during which time access to the property is via the esker runway at Kirk Lake camp. The ice-free season generally lasts two and a half months from early July to mid-September. Summer temperatures rarely reach 30°C; furthermore, storms can occur at any time.

Local relief is generally extremely flat. The elevation of rolling hills varies between 400 meters and 550 meters above sea level.

Acquisition - Joint Venture Agreement

The AK Property, acquired in August 1992, consists of 132 contiguous claims, which total 310,175 acres, in the Mackenzie Mining District, NWT. The AK Property forms a nearly rectangular block, which is about 25 kilometers north-south by 50 kilometers east-west. All of the claims comprising the AK Property are in good standing and have no legal impediments.

Until August 3, 2000, the AK Property and the CJ Property (together the "AK-CJ Properties") were held by the Company, as to 90%, and by Camphor Ventures Inc. ("Camphor"), as to 10%. In March, 1997, Old MPV, 444965 and Camphor announced the Monopros Joint Venture Agreement with Monopros (now De Beers Canada) in connection with the AK-CJ Properties. Operatorship by De Beers Canada was to occur immediately and operatorship by Canamera was effectively terminated at that time.

Pursuant to the Monopros Joint Venture Agreement dated March 6, 1997, Monopros would earn up to a 60% interest in the AK-CJ Properties in exchange for conducting an exploration program on the property and a bulk sampling program on one or more new kimberlites, completing a feasibility study on one or more kimberlites, and funding the development and construction of a commercial mine. On completion of a bulk sampling program, and if De Beers Canada committed to proceed with a full feasibility study, De Beers Canada would earn an initial 51% interest, increasing to a 56% or 60% interest (depending on alternative arrangements on financing the feasibility study) on the commencement of commercial production. If on completion of the full bulk-sampling program, De Beers Canada did not commit to proceeding with a feasibility study, De Beers Canada would earn only a 30% interest and the Company and Camphor would continue to control the AK-CJ Properties.

Concurrently with entering into the Monopros Joint Venture Agreement, De Beers Canada subscribed for 209,644 units of Old MPV at a price of \$4.77 per unit, each unit consisting of one common share of Old MPV and one non-transferable warrant to purchase one additional common share of Old MPV at \$6.36 per share exercisable before March 6, 1999.

Under the agreement, De Beers Canada had until September 15, 1999 to elect to purchase a 51% interest in a 3% gross overriding royalty against production from the property from the Company (as to 90%) and Camphor (as to 10%). This purchase was completed in November 1999.

Pursuant to an amending agreement dated December 17, 1999, the Joint Venture Agreement was amended with respect to costs of Stages 1, 2, 3 and 4 of the Joint Venture Program. Also, as of December 7, 1999, the joint venture parties entered into an Area of Interest Agreement, in respect of acquisition from third parties in the designated Area of Interest, being a five kilometer zone as measured from the boundary of the claims comprising the AK-CJ Properties.

Pursuant to an agreement reached at a meeting on March 8, 2000, the parties agreed to amend the Monopros Joint Venture Agreement to clarify funding obligations between the parties and to enable the parties to defer the feasibility study decision date in order to give time to De Beers Canada to investigate several conventional and alternative mining scenarios to be the subject of the desktop study. As a result, De Beers Canada agreed to fund all exploration, development and other project costs going forward, effective immediately and would earn a 51% interest upon completion of the desktop study. The Company had been paying 44.1% of all project costs since July 1999.

On August 4, 2000, the desktop study was presented 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 Ventures Inc. with a 4.9% interest in the AK-CJ Properties. The CJ Property substantially lapsed in November 2001 with the remaining CJ Property claims lapsing on August 17, 2002.

In August 2002 De Beers took 30 of the AK claims to lease. These claims contain all the kimberlite discoveries at and in Kennady Lake, MZ Lake and in the Kelvin-Faraday area. In 2005, the Joint Venture decided to retain four leases for the development of the Gahcho Kue project; the Company decided to retain five leases for future exploration; and 21 leases were transferred to GGL Diamond Corp. in exchange for a 1.5 percent royalty.

Regional Geological Setting

The AK Property is located about 75 kilometers south of Aylmer Lake in the southeastern corner of the Slave Craton. The Slave Craton, about 400 kilometers east-west by 750 kilometers north south, is an integral part of the North American Craton. Except for Proterozoic rocks, mainly along the margin, the Slave is composed dominantly of Archean rocks greater than 2.4 Ga, which makes it the oldest of the Canadian Shield. This Archean setting is significant because most economic kimberlites are restricted to stable Archean cratons within continental shield areas. It is therefore consistent that a significant kimberlite province, which hosts more than 150 kimberlite pipes, is centred in the heart of the Slave Craton. The first kimberlites were discovered there in 1991.

Kimberlites in the Slave Craton intrude granites, metasedimentary rocks, and in some cases, diabase dykes. Preliminary dating of these kimberlites indicates that their emplacement occurred at various times from Paleozoic to Tertiary. Kimberlite pipes are known to have been emplaced in Late Cretaceous and Eocene in the Lac de Gras area, in Middle Jurassic and Late Ordovician north of Lac de Gras, and in the Cambrian south of Lac de Gras in the AK Property area. It has been noted that corridors between northwest trending diabase dykes may mark preferred locations for kimberlite emplacement in the Lac de Gras area. Such parallel corridors may represent major crustal fracture zones that facilitate ascent of kimberlite magma.

Late Wisconsinan glaciation above the Slave Structural Province climaxed about 20,000 years ago. Local and regional ice flow patterns show considerable variation. Glacial dispersion trends are further complicated by englacial and deglacial processes.

Detailed Geological Setting

Current regional mapping indicates that the AK Property is 90% underlain mainly by unsubdivided granitic rocks that intrudes the 10%, older metavolcanic and metasedimentary rocks of the Yellowknife Supergroup.

A number of diamondiferous kimberlite intrusions have been identified on the AK Property. Most have been located in the Kennady Lake area. The 5034 kimberlite has been dated radiometrically by the Rb-Sr method on phlogopite as Middle Cambrian (539 Ma). Drilling has encountered the 5034 kimberlite, Hearne kimberlite, Tesla kimberlite, Tuzo kimberlite, Wallace kimberlite, and 5034-South kimberlite. The number of kimberlite bodies encountered indicates that the area may represent a kimberlite field, referred to in this Report as the Kennady Lake Kimberlite Field.

Quaternary Geology

At least two glaciations have scoured the area and deposited a superficial till veneer over bedrock. This till is generally one to two meters thick, but occasionally it is up to ten meters thick. The predominant direction of glacial transport is almost due east to west. All the glacial features and related deposits appear to be related to the last glacial event, the Late Wisconsinan glaciation. There is no stratigraphic evidence of deposits from previous glaciation.

Work History

Historically, mineral exploration in the southeastern Slave Craton focused on gold and later base metals, within the Yellowknife Supergroup metavolcanic and metasedimentary rocks in the Walmsley Lake area. However, no previous exploration for base or precious metals, within what is now the AK Property, is recorded in the assessment files of the Department of Indian Affairs and Northern Development ("DIAND"). Furthermore, there is no record of diamond exploration in the AK Property area prior to its staking in 1992.

5034 Kimberlite Pipe

The 5034 kimberlite pipe was the first kimberlite discovered on the AK Property in 1995. It is located near the southeast corner of the AK Property under and adjacent to Kennady Lake. It is a diamondiferous kimberlite. The pipe has an irregular shape with a surface dimension of about 120 meters by 180 meters. A 35 meter wide dyke-like body extends from the pipe some 300 meters to the north- northeast. The overall near surface area is about 2.15 hectares, and the majority of it is overlain by the shallow water of Kennady Lake.

Diamond recoveries by caustic fusion of drill core from the 5034-kimberlite pipe was performed by The Saskatchewan Research Council and Canamera. Results in terms of "carats per tonne" and "number of macros per ten kg" are of similar magnitude to the results reported by Dia Met, Aber and Ashton from the Lac de Gras area. The results were encouraging enough for a mini-bulk sample in 1996.

Mini-Bulk Sample of 5034 Kimberlite Pipe

A 104 tonne "mini-bulk" test from 42 bulk sample drill holes was performed to obtain macro grade estimates and to obtain a reasonable quantity of diamonds for preliminary valuation. Macro grade estimates from the "mini-bulk" test by Canamera on drill core from the 5034 kimberlite pipe is reported in Table 1. Crushing for this test was performed as follows. The first 24.6 tonnes of the "mini-bulk" sample were crushed and screened at 24 millimeters, followed by systematic step recrushing at 12, 6, 3 and 1.5 millimeters. The second 79.0 tonne "mini-bulk" sample involved the same crushing stages, except that the final crush to 1.5 millimeters was omitted. Diamond recovery utilized a Sortex x-ray fluorescence machine, a dense media separation plant, and a grease table. Recovery of all diamonds that would not pass through a 20 mesh (0.85 millimeter) screen was attempted. 3,895 stones totaling 257 carats were collected. Thus, the average stone size is about 0.065 carats.

Table 1

**Diamond Recoveries by Heavy Media Plant from a "Mini-Bulk"
Test of Drill Core Samples from the 5034 Kimberlite**

| Description | Sample Weight (Tonnes) | Weight Macros >1.0 mm (Carats) | Macro Carats per Tonne (1,000 Kg) |
|---|-----------------------------------|--|--|
| <i>5034 Kimberlite Pipe: Bulk Sample: Heavy Media Separation Plant</i> | | | |
| Canamera | 24.6 | 75.9 | 3.09 |
| Canamera | 79.0 ⁽¹⁾ | 181.1 ⁽¹⁾ | 2.29 ⁽¹⁾ |
| <i>Summary</i> | <i>3,895 Stones</i> | <i>257 Carats</i> | <i>0.065 Carats/Stones</i> |

⁽¹⁾ This portion of the bulk sample did not undergo a final crush to 1.5mm.

Valuation of the diamonds is difficult given the small parcel of diamonds available. De Beers Canada released in September 1997 an estimate by De Beers of US\$55.00 per carat with a projected revenue per tonne of US\$82.50. The valuation was based on diamonds recovered from the "mini-bulk" test by Canamera (Table 1), as well as on diamond analysis of core derived from a hole drilled by De Beers Canada. De Beers valued all diamonds seven points and larger. The techniques used in the valuation are proprietary to De Beers.

1997 Exploration Program

During 1997 the main objective of De Beers Canada was to locate additional kimberlite pipes and obtain sufficient samples for diamond analysis to establish the merits of exploration on the AK Property. In particular, an additional pipe or pipes were sought in the immediate vicinity of the 5034 kimberlite in order to find sufficient potential tonnage and diamond content to warrant bulk sampling to determine economic viability of the AK Property. Consequently, De Beers Canada conducted the following on the AK Property: (i) probe analyses of indicator minerals recovered from till samples by Canamera, (ii) additional till sampling, (iii) a comprehensive airphoto survey and follow-up analysis of surficial geology, (iv) a detailed helicopter-borne magnetometer and electromagnetic survey, and (v) a drilling program.

The 1997 drilling program, consisted of land based core holes and air drill holes, which were targeted with the geophysical survey. Three new diamondiferous kimberlite pipes were discovered. The Tesla kimberlite, about 1.0

kilometers north-northwest of the 5034 kimberlite, was discovered in May. The Tuzo kimberlite and Hearne kimberlite, about 0.6 kilometers north-northwest and 1.08 kilometers southwest of the 5034 kimberlite pipe, respectively, were discovered in August 1997. The 1997 objectives of De Beers Canada were achieved with the discovery of the Tesla, Tuzo and Hearne kimberlite pipes. However, although a limited amount of drilling was undertaken outside the Kennady Lake Kimberlite Field, no new kimberlites were found. Thus, the exploration program for 1998 was designed to focus on the further evaluation of the Hearne, Tuzo, Tesla and 5034 kimberlites, as well as the discovery of the sources of the many known indicator mineral dispersion trains.

The Hearne, Tesla and Tuzo Kimberlites

Diamond recoveries by caustic fusion of drill core from the Hearne, Tesla and Tuzo kimberlites are in Table 2. De Beers in Kimberley, South Africa performed caustic fusion for De Beers Canada.

Results in terms of "number of macros per 10 kg" are of similar magnitude to preliminary results reported in Table 2 for the 5034 kimberlite pipe.

Table 2

**Diamond Recoveries by Caustic Fusion of Drill Core from the Hearne, Tesla and Tuzo Kimberlites,
Kennady Lake Kimberlite Field, AK Property**

| Description | Sample Weight (kg) | No. of Diamonds | Diamonds per 10 kg | Weight (Carats) | No. of Macros >0.5 mm ⁽¹⁾ | No. of Macros per 10 kg |
|---------------------------|--------------------|-----------------|--------------------|-----------------|--------------------------------------|-------------------------|
| <i>Hearne Pipe</i> | | | | | | |
| Hole 1 | 132 | 324 | 25 | 0.90 | 33 | 2.5 |
| Hole 2 & Hole 3 | 168 | 439 | 26 | 1.33 | 50 | 3.0 |
| <i>Tesla Pipe</i> | | | | | | |
| Hole 1 | 245 | 188 | 8 | 0.13 | 14 | 0.6 |
| <i>Tuzo Pipe</i> | | | | | | |
| Hole 1 | 124 | 403 | 33 | 2.09 | 36 | 2.9 |
| Hole 2 | 154 | 294 | 19 | 0.39 | 19 | 1.2 |

⁽¹⁾ Size measured as stones not passing through a 0.5 by 0.5mm screen.

1998 Mini-Bulk Sample

During 1998, De Beers Canada conducted a mini-bulk sample on the four pipes in Kennady Lake on the AK Property that was designed to extract, by reverse circulation drill, small bulk samples from the recently discovered Hearne, Tuzo and Tesla pipes as well as the 5034 pipe. The object of this work was to determine if diamonds of sufficient quantity and value were indicated to be contained in these pipes and therefore provide justification for a further large scale bulk sampling program. In addition, continued exploration was undertaken outside of the Kennady Lake Kimberlite Field on both the AK-CJ Properties in an effort to locate new kimberlite occurrences. Table 3 lists the results of the mini-bulk sampling program on the kimberlites in the Kennady Lake Kimberlite Field cluster.

Table 3

**Results Of Mini-Bulk Sampling Of Kimberlites
In The Kennady Lake Kimberlite Field Cluster**

| Description | Sample Size (Tonnes) | Carats per Tonne | Value per Carat (US\$) | Best Fit Value per Carat (\$US) | Value per Tonne (US\$) | Best Fit Value per Tonne (US\$) |
|--------------------|-----------------------------|-------------------------|-------------------------------|--|-------------------------------|--|
| Hearne Pipe | 62.6 | 2.33 | 25 - 50 | 44 | 58 - 177 | 103 |
| Tuzo Pipe | 48.0 | 2.20 | 51 - 108 | 68 | 112 - 238 | 150 |

| Description | Sample Size (Tonnes) | Carats per Tonne | Value per Carat (US\$) | Best Fit Value per Carat (\$US) | Value per Tonne (US\$) | Best Fit Value per Tonne (US\$) |
|--------------------|-----------------------------|-------------------------|-------------------------------|--|-------------------------------|--|
| Tesla Pipe | 50.0 | 0.37 | 56 - 112 | 96 | 21 - 41 | 36 |
| 5034 Pipe | 55.8 | 1.60 | 26 - 58 | 51 | 42 - 93 | 82 |

In addition to the mini-bulk sampling program, core drilling of the Hearne, Tuzo, Tesla and 5034 pipes was conducted in order to provide a better definition of the geological and tonnage models of each of these bodies.

1999 Bulk Sampling Program

The main purpose of the bulk sampling phase of evaluation was to obtain a sufficiently large number of diamonds for more accurate determination of grade and value per carat.

The bulk sample drilling, using two 12.25-inch diameter reverse circulation (RC) drills, started January 16, 1999. The objective of sampling approximately 1,600 tonnes of kimberlite to recover the anticipated number of carats was completed ahead of schedule on April 6, 1999. A total of 1,666 tonnes of kimberlite was extracted from a total of 43 vertical holes drilled into the four pipes to depths of up to 300 meters. At the completion of drilling, 575 tonnes were extracted from the 5034 pipe, 454 tonnes from the Hearne pipe, 460 tonnes from the Tuzo pipe and 177 tonnes from the Tesla pipe.

The bags of kimberlite chips and diamonds were sent to the De Beers Canada Dense Media Separation plant (DMS) in Alberta, where the chips were washed in a scrubber and the larger pieces crushed to smaller sizes and recombined with the sample which was subsequently fed through the DMS plant. The resulting concentrate was collected in a tamper-proof cage and the concentrate containers sealed prior to shipment to South Africa for final diamond recovery. The recovered rough diamonds were then sent to Kimberley for evaluation. These values were passed to the De Beers Mineral Resource Estimation Department in Johannesburg and utilized together with all other recorded data in the grade and value modelling. These modeled values are De Beers' best estimates for the revenues per tonne expected during mine production.

5034 Pipe

In December 1999, De Beers Canada advised the Company of the modeled revenue and grade estimates for the 5034 pipe. The modeled revenue value per tonne increased significantly from the initial estimate based on the previous year's mini-bulk sample. For the 5034 pipe a total of 1044 carats were recovered from 609 tonnes of kimberlite. De Beers valued the recovered diamonds per sieve class in Kimberley, South Africa. The De Beers Mineral Resources Estimation Department has used these current grade and diamond values, together with the mini-bulk sample results and the micro- and macrodiamond results announced previously, to model a grade (carats per tonne) and a revenue per carat for each of the four lobes that make up the 5034 pipe. Production recovery factors, determined by De Beers, were applied and the commonly used commercial bottom cut-off recovery size of a screen with a 1.50 mm square mesh was used to determine the grades.

The 5034 pipe was subdivided on the basis of internal geology into four lobes - a west, centre, and east lobe as well as a north lobe that extends to the north under land. Based on the 1999 bulk sampling results, the west, central and eastern lobes are classified in the Indicated Resource category. The north lobe, which was not part of the 1999 bulk sampling, remains in the Inferred Resource category. The modeled results for each of these parts of the pipe are summarized in Table 4 below:

Table 4**Modeled Results for West, Centre, East and North Lobes of 5034 Pipe**

| 5034 Pipe | Modeled Grade (carats per tonne) | Modeled Revenue (US\$/carat) | Value per tonne US\$ |
|------------------|---|---|---------------------------------|
| West lobe | 1.85 | 65 | 120.3 |
| Centre lobe | 1.30 | 55 | 71.5 |
| East lobe | 1.70 | 65 | 110.5 |
| North lobe | 1.70 | 65 | 110.5 |

The modeled grades represent grades based on the complete three-dimensional model of the pipe taking into account the different phases of kimberlite, low and high grade zones, etc. These modeled values are thus the best estimates of the grade and expected revenue for the pipe.

Tesla Pipe

In December 1999, De Beers Canada notified the Company that 64 carats had been recovered from the processing of 184 tonnes of kimberlite from the Tesla pipe for a sample grade of 0.35 carats per tonne. This grade compares to a modeled grade of 0.37 carats per tonne based on the results of the previous year's mini-bulk sample. The largest diamond recovered was 2.7 carats. The Tesla is the smallest of the four pipes sampled.

Hearne Pipe

In late January 2000, De Beers Canada reported to the Company the modeled revenue and grade estimates for the Hearne diamond pipe. The modeled value per carat increased significantly (from US\$44 to US\$65 per carat) from the initial estimate based on the 1998 mini-bulk sample while the modeled value per tonne also increased from US\$103 to US\$111.

The Hearne pipe consists of two parts, a northern and a southern lobe. The two lobes have been subdivided on the basis of internal geology into several phases. Based on the 1999 bulk sampling results, all parts of the Hearne body except the south lobe Phase E between 200 and 300 meters (called Phase E1) were classified in the Indicated Resource

category. Phase E1 remains in the Inferred Resource category. The modeled results for each of these parts of the pipe are summarized in Table 5 below:

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Table 5**Modeled Results for North and South Lobes of Hearne Pipe**

| Hearne Pipe | Kimberlite Resource (million tonnes) | Modeled grade (carats per tonne) | Modeled Revenue (US\$/carat) | Revenue Per Tonne US\$ |
|---------------------|---|---|---|---------------------------------------|
| North Lobe Phase A | 3.08 | 2.05 | 65 | 133 |
| North Lobe Phase B | 1.61 | 0.60 | 65 | 39 |
| North Lobe Phase C | 0.72 | 2.05 | 65 | 133 |
| South Lobe Phase D | 1.14 | 2.05 | 65 | 133 |
| South Lobe Phase E1 | 0.31 | 2.05 | 65 | 133 |

The modeled grades are based on a three-dimensional model of the pipe taking into account the different phases of kimberlite, (e.g. low and high grade zones). These modeled values are thus the best current global estimates of the grade, value per carat, and expected revenue per tonne for the pipe.

Tuzo Pipe

In March 2000, De Beers Canada advised the Company of the modeled revenue and grade estimates for the Tuzo diamond pipe.

The Tuzo pipe can be divided into four zones based on the internal geology. The top 80 meters (from 20 meters to 100 meters depth) of the pipe consists mainly of Zone A and Zone B kimberlite and is classified as an indicated resource of 2.6 million tonnes. From 100 meters depth to 200 meters, the pipe consists predominantly of Zone Bg kimberlite containing generally greater than 40% granite inclusions and some Zone B and Zone C kimberlite. This interval of the pipe is classified as an indicated resource of 3.5 million tonnes. At depths of 200 meters to 300 meters, the pipe is classified as an inferred resource of 4.1 million tonnes and consists predominantly of Zone C kimberlite with some Zone B and Zone Bg kimberlite. An additional 4.7 million tonnes of kimberlite on the western side of the pipe (from 200 to 360 meters depth) and in the deeper parts of the pipe (from 300 to 360 meters depth) have not been included in the revenue and grade modelling. The modeled results for each of these zones of the pipe which have been sampled are summarized in Table 6 below.

The average modeled grade of 1.22 carats per tonne is greater than the initial bulk sampling grade of 1.02 carats per tonne. The modeled revenue value per carat of \$43 compares to a best-fit value of \$68 determined from the 1998 mini bulk sample. The decrease in value per carat is due to the smaller number of larger diamonds and hence a higher proportion of smaller stones. The modeled grades are based on a three-dimensional model of the pipe taking into account the different zones of kimberlite, (e.g. low and high grade zones). Systematic auditing of the processed concentrates (tailings) from the Tuzo kimberlite has recovered an additional nineteen carats of diamonds which have been incorporated into the modelling of the Tuzo grades. These modeled values are thus the best current global estimates of the grade, value per carat, and expected revenue per tonne for the pipe.

Table 6**Modeled Results for Zone A, B, Bg and C of Tuzo Pipe**

| Tuzo Pipe | Kimberlite Resource (million tonnes) | Modeled grade (carats per tonne) | Modeled Revenue (US\$/carat) | Revenue Per Tonne US\$ |
|------------------|---|---|---|-----------------------------------|
|------------------|---|---|---|-----------------------------------|

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| | | | | |
|-----------------------|-----|------|----|-----|
| Zone A | 1.0 | 2.7 | 47 | 127 |
| Zone B | 2.4 | 0.94 | 33 | 31 |
| Zone Bg (>40%granite) | 2.4 | 0.62 | 33 | 20 |
| Zone C | 4.4 | 1.35 | 47 | 63 |

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1999 Exploration/Delineation Program

Believing there could be more kimberlite bodies in Kennady Lake, De Beers Canada in 1999 continued to undertake surface geological surveys in the vicinity of the known kimberlites. Several lake based geophysical targets (EM highs) were identified by these surveys. The first to be drilled is located approximately 300 meters southwest of the southern extremity of 5034 pipe. The angled drill hole intersected 36 meters of kimberlite between 60 and 104 meters giving a horizontal projection of 22 meters. Based on the available information, De Beers Canada believes that the maximum dimension of this pipe, called the Wallace pipe, is unlikely to exceed 60 meters.

A second geophysical target was drilled approximately 150 meters northeast of the recently discovered Wallace pipe and approximately 150 meters southwest of the 5034 pipe. This angled drill hole intersected 43 meters of kimberlite between 56 and 99 meters giving a horizontal projection of 31 meters. This new body has been called 5034-South.

In addition, De Beers Canada looked for and found similar EM highs in other areas of the southern part of the AK Property. One of these, a lake based geophysical target is located in the area of the head of a long, broad indicator mineral train. The target is approximately 12 km northeast of Kennady Lake. An angled drill hole intersected 34 meters of kimberlite between 38 and 72 meters giving a horizontal projection of 22 meters. A second hole, collared nearby, intersected successive narrow intersections (varying from 2 to 7 meters) of kimberlite. The exciting part of this discovery was that it was the first time a substantial intersection of kimberlite had been discovered outside of the Kennady Lake cluster of pipes. This new kimberlite body was named the Faraday body.

Feasibility Study Decision - 2000

When the results as set out in Table 6, above, were obtained, both De Beers Canada and the Company agreed on March 8, 2000, that it was unlikely that the agreed upon rate of return would be achieved from the mining of the 5034, Hearne and Tuzo pipes, using the conventional open pit mining method. As a result, the Company agreed to extend the feasibility study decision date and De Beers Canada has agreed to carry all exploration, development and other project costs. Prior to March 8, 2000, the Company had been paying 44.1% of all project expenses since July 1999. De Beers Canada, in the meantime, conducted a desktop study to investigate several alternative mining scenarios in order to minimize capital and working costs associated with the possible mining of the Kennady Lake pipes. The results of that desktop study were presented to the Company on August 4, 2000. The study showed that the modeled rate of return for the mining of the three main diamond pipes was below the agreed upon rate of return needed to proceed to the next phase, but sufficiently close to only require an increase in diamond revenues of approximately 15% to achieve the agreed upon rate. A management committee was constituted and it was decided that the best options to advance the project were an additional bulk sample and additional exploration. The bulk sample was completed in May 2001 and the exploration in June 2001.

The modeled values of the diamonds recovered in the 2001 bulk sample were reported on December 18, 2001 and the results were encouraging enough for De Beers to commit to another bulk sample during the winter 2002. The main purpose of the program was to recover more high quality, top color diamonds. Such diamonds very likely would increase the values per tonne, which in turn could positively impact the modeled rate of return in the desktop study.

Exploration from 2000 onwards

De Beers Canada and the Company recognized that the best way to enhance the potential economic viability of the project was by adding quickly to the resource base. The results from the extensive 1999 summer sampling program were integrated with the existing geophysical and sampling databases to define targets that required drilling.

The 2000 spring exploration drilling program started in early March and ended in the second week of May. A new kimberlite body which has been named Kelvin, was discovered in a lake located approximately nine km northeast of

Kennedy Lake, which contains the Gahcho Kué diamondiferous kimberlites, and three km southwest of the diamondiferous Faraday body. One drill hole in the north-south direction intersected 40 meters of kimberlite horizontally projected, while another hole in approximately the east-west direction intersected 23 meters of kimberlite horizontally projected. A third hole drilled failed to intersect kimberlite. The shape and dimensions of the Kelvin kimberlite is difficult to determine from the three holes completed. A 3.3 meter thick kimberlite dyke (called Hobbes) at a depth of 31 meters was discovered approximately 200 meters south of the Kelvin body in the same lake. The Kelvin kimberlite is relatively small, so any additional work will concentrate on exploration in the hope of making additional discoveries in that area.

Kimberlite recovered from the Faraday- Kelvin bodies were sent for acid dissolution in Kimberley, South Africa. The micro-diamonds recovered per square sieve size are shown in Table 7 (i.e., the number of micro-diamonds that did not pass through each of the square mesh sieves). The two largest diamonds for the Kelvin body are 8.9 and 8.5 points (one point is one-hundredth of a carat). Diamonds larger than the 0.5 x 0.5 mm square sieve size are called "macro-diamonds". The number of macro and micro-diamonds recovered for both the Faraday and Kelvin bodies and their size-frequency distribution is very similar to that for the 5034 and Hearne pipes in Kennady Lake (representative micro-diamond results for the 5034 and Hearne pipes are also shown in the table). Those pipes have average grades of 1.67 carats per tonne.

Table 7: Micro-diamonds recovered from the Faraday and Kelvin bodies compared to representative samples from the Hearne and 5034 pipes.

| Square mesh Size (mm) | Kelvin: 184kg Number of diamonds | Faraday: 40kg Number of diamonds | Hearne: 128kg Number of diamonds | 5034: 160 kg Number of diamonds |
|-----------------------|-------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|
| 2 | 5 | 1 | 2 | 4 |
| 1 | 9 | 0 | 10 | 10 |
| 0.5 | 11 | 5 | 17 | 23 |
| 0.3 | 44 | 11 | 46 | 37 |
| 0.212 | 65 | 12 | 77 | 68 |
| 0.15 | 139 | 21 | 83 | 138 |
| 0.104 | 73 | 24 | 143 | 218 |

A ground gravity survey conducted in the 2003 winter program covered the Kelvin body and as far as a few hundred meters south of Hobbes, and identified several drill targets. A hole (called Kelvin 1b) drilled 50 m to the west of the original 2000 drill hole into Kelvin (called Kelvin 1a) intersected a total of 25 m of kimberlite horizontally projected in two closely spaced intervals, while a hole drilled 60 m to the east intersected 2.01 m of kimberlite horizontally projected. The Kelvin body now appears to extend not just in the north-south direction, but also in the east-west direction.

A hole (called Kelvin-2) drilled 120 m south of Kelvin along the suspected structure between Kelvin and Hobbes intersected 7.4 m of kimberlite horizontally projected, while a hole (called Hobbes-2) drilled 70 m south of Hobbes intersected two kimberlite intersections of 2.4 m and 3.0 m horizontally projected, respectively. It is suspected that this Hobbes intersection and the Kelvin body could be connected with a kimberlite bearing structure that pinches and swells.

A ground gravity survey and detailed ground magnetic survey was then conducted over the Faraday body and approximately 600 m to the south along the suspected structure connecting the Faraday body and the 2001 hole that intersected some kimberlite. The main purpose of the survey was to identify wider areas along the observed dyke structure. Several such areas were identified and two of the better target areas were drilled.

The first target, a magnetic anomaly, was approximately 100 m southwest of the Faraday body and 5.6 m of kimberlite horizontally projected was intersected. The kimberlite contained some country rock. The second target, a gravity anomaly, was approximately 520 m southwest of the Faraday body and approximately 80 m north of the 2001 drill hole. Kimberlite was encountered just below the lake bottom and 21.5 m of kimberlite horizontally projected was intersected. It is suspected that the kimberlite intersections to the north and south of the Faraday body are probably connected to the Faraday body with a kimberlite bearing dyke structure that pinches and swell.

The recovered kimberlite from all intersections was sent for petrographic analysis and micro-diamond recovery and the results are shown on Table 8.

Table 8: Micro-diamonds from the Faraday, Kelvin and Hobbes kimberlite bodies

| Square Mesh Size (mm) | Faraday-1b 33kg Number of diamonds | Faraday -2 65 kg Number of diamonds | Kelvin-1b 65 kg Number of diamonds | Kelvin-2 16 kg Number of diamonds | Hobbes-2 16 kg Number of diamonds |
|-----------------------|---------------------------------------|--|---------------------------------------|--------------------------------------|---|
| 2.36 | 0 | 1 | 0 | 0 | 0 |
| 1.70 | 0 | 2 | 0 | 0 | 0 |
| 1.18 | 1 | 2 | 2 | 0 | 0 |
| 0.85 | 0 | 6 | 4 | 0 | 0 |
| 0.60 | 1 | 7 | 6 | 0 | 0 |
| 0.425 | 0 | 17 | 14 | 3 | 1 |
| 0.300 | 3 | 21 | 24 | 4 | 2 |
| 0.212 | 11 | 41 | 40 | 4 | 4 |
| 0.150 | 8 | 47 | 60 | 4 | 2 |
| 0.100 | 2 | 50 | 53 | 19 | 4 |

The number of diamonds recovered from the kimberlite bodies in the Kelvin-Faraday lakes and their size-frequency distribution are very similar to those for the 5034 and Hearne pipes, which each have grades averaging 1.67 carats per tonne. The two largest diamonds recovered weigh 0.40 carats (Faraday-2) and 0.09 carats (Kelvin-1b). The important point to notice is, besides the total number of diamonds recovered, that there are a relatively large proportion of macro-diamonds (those that did not pass through the 0.425-0.6 sieve sizes (Lakefield) or the 0.5 sieve sizes (De Beers), especially considering the small sample sizes.

The kimberlite samples for Kelvin-2 and Hobbes-2 were very small (only 16 kg each) so even though the micro-diamond counts for these bodies are not as good as for the others, the results are still very encouraging. This is especially so considering that, even for the 5034 and Hearne pipes, the micro-diamond counts for 20 kg samples varied significantly.

The winter-spring exploration program started at the end of February 2004. De Beers conducted a very large ground gravity survey from the northern part of Faraday Lake following the structural trend in a southwestern direction to the property border. The survey area was approximately three km wide and six gravity meters were used (compared to one meter the previous year). The targets obtained from the survey were prioritized and then the best and larger ones were drilled. A kimberlite intersection of 2.0 m was intersected approximately 1300 m to the southwest of the Faraday body.

During the 1999 winter program kimberlite dykes were discovered in MZ Lake located in the central part of the AK claims, approximately 20 km northwest of Kennady Lake. A larger number of indicator minerals, mainly garnets, have been recovered on the western edge of the lake and as far west as the border of the AK claims (approximately 20 km to the west). A land based target on the north shore of MZ Lake, was drilled with a vertical hole to a depth of 35 meters. Five kimberlite stringers with the largest two having thicknesses of 0.40 and 0.70 meters were intersected, as well as a 1.70 meter thick intersection of what is believed to be a sill (an approximately horizontal lying kimberlite body).

This result was followed up in March and April, 2001, by a ground penetrating radar (GPR) survey that covered the entire length of the northern shore of the lake (approximately 4 km) and several shallow dipping reflectors were

detected on land along most of the area surveyed. De Beers Canada drilled five of the seven holes in May 2001, mainly along the periphery of the surveyed area where strong GPR reflector signals were recorded. All holes were drilled vertically, on land and all except one were drilled to a maximum depth of 50 m. Kimberlite was intersected in five of seven drill holes on land just north of MZ Lake. The thickest intersection was 3.20 meters of kimberlite at a depth of 27 meters and the distance between the most easterly and most westerly intersections of kimberlite was nearly four kilometers. De Beers Canada believes that there are several sills of various lengths, widths and thicknesses north of the lake.

Most of the recovered kimberlite (34 kg) was sent to South Africa for both indicator mineral and micro-diamond recovery. An additional 22 kg from the two holes drilled into the MZ kimberlite during 1999 (MPV-99-33) and 2000 (MPV-00-004) was also treated. A total of 40 micro-diamonds were recovered from four of the six holes.

The largest number of microdiamonds was recovered from hole MPV-01-73 (called sill-73): 28 diamonds from 5 kg with the largest diamond being 1mm. The second largest number of microdiamonds was recovered from hole MPV-01-070: 9 diamonds from 4 kg. Four of the five sills discovered so far have been determined to be diamondiferous. Because of these encouraging results De Beers decided upon a follow-up program at MZ Lake during the spring of 2002. A detailed ground penetrating radar (GPR) survey using closer line spacing than in 2001, was conducted over a large area encompassing sill-73. The results of survey were used to determine drill hole locations. A total of 10 follow-up holes were drilled into sill-73 and numerous intersections of kimberlite was recovered. The thicknesses of the intersections varied from 7cm to 2.19m with the largest combined kimberlite intersection in one drill hole being 3.49m, between 14.66m and 19.25m depth. This sill appears to extend at least one kilometer. The MZ kimberlite from sill-73 was sent to Kimberley, South Africa for micro-diamond recovery. Only five microdiamonds were recovered.

2001/2002 Bulk Sampling

The winter 2001 bulk sample program of the Hearne and 5034 kimberlite pipes was completed on May 4, 2001. De Beers Canada recovered 751 carats from 334 tonnes of kimberlite from the Hearne pipe and 914 carats from 635 tonnes from the 5034 pipe. There were three holes drilled into the high-grade northern part of the Hearne pipe and four holes into the high-grade eastern lobe of the 5034 pipe. The kimberlite samples were processed in Grand Prairie, Alberta, Canada and the sample concentrates were subsequently shipped to South Africa where the diamonds were recovered.

The 1,665 carats that were recovered from both pipes (to a 1.5mm lower cut-off) plus the diamonds recovered from the 1999 bulk sample were all valued, based on August 2001 diamond prices, at The Diamond Trading Company (DTC) in London. The De Beers Mineral Resources Estimation Department in Johannesburg has used these values for both bulk samples to update the modeled revenue per carat for each pipe. Production recovery factors, determined by De Beers, were applied and the commonly used commercial bottom cut-off recovery size screen with a 1.50mm square mesh was used. De Beers changed the way diamond values were reported to the Company to make them comparable to the values reported by other Canadian diamond mining companies. To compare the 1999 and the current values, 10% was added to the 1999 values. The average revenue per carat for the 5034 pipe based on August 2001 values was US \$65.50 for the combined 1999 and 2001 parcels, compared to the adjusted US \$69.30 value for the 1999 bulk sample. Similarly the average revenue per carat for the Hearne pipe was US \$63.30 compared to the adjusted US \$71.50 value for the 1999 bulk sample. According to analysts and industry sources, the prices of rough diamonds had fallen by an average of around 20% during the recession of 2000-2001 and at least 10% since late 1999. The decreases in value for the diamonds from the 5034 and Hearne pipes were thus consistent with or less than the large drop in rough diamond market values.

A 9.9-carat diamond recovered from the 5034 pipe was of high quality and top color, and was valued by the DTC at approximately US \$60,000. The Company's consultant, Overseas Diamonds N.V. from Antwerp, Belgium, valued representative parcels of the diamonds at the DTC in November. Their values for selected parcels were within several percent of the De Beers' values for those same parcels. It was observed at the DTC that a population of high quality diamonds (such as that of the 9.9 carat diamond) exists amongst the diamonds recovered to date from the Hearne and 5034 pipes. This observation and additional follow-up analysis of these diamonds has led De Beers to the decision that more bulk sampling of the Hearne and 5034 pipes was needed. More high quality diamonds needed to be recovered so that their size frequency distribution could be determined more accurately. High quality diamonds have a large impact, especially the larger ones, on the revenue per tonne so the more accurately their size frequency distribution is known, the greater the confidence in and the accuracy of the revenue modeling. High quality diamonds also offer upside potential to the values per carat. The occurrence of the 9.9-carat stone posed the possibility that these stones

could occur regularly during production. Consequently, De Beers Canada decided to do more bulk sampling of the Hearne and 5034 pipes in 2002.

The 2002 bulk sample program of the 5034 and Hearne diamond pipes started on February 13, 2002 and ended April 20, 2002. A total of six large diameter holes were drilled into the 5034 pipe and five into the Hearne pipe. The same drill (24 inch diameter) and same drill method (a "diamond friendly" flood reverse system) that was used in 2001 was used again in 2002. De Beers recovered approximately 684 tonnes of kimberlite from the Hearne pipe and approximately 837 tonnes of kimberlite from the 5034 pipe for a total of 1,521 tonnes.

The 1,215 carats recovered from the 5034 pipe and the 1,174 carats recovered from the Hearne pipe as well as the diamonds recovered from the 1999 and 2001 bulk samples (all to a 1.5 mm lower cut-off) were all valued, based on the January 2003 diamond prices, at the Diamond Trading Company (DTC) in London. The De Beers Mineral Resource Department in Johannesburg has used these values for all three (1999, 2001, 2002) bulk samples to update the modeled revenue per carat for each pipe. Production recovery factors, determined by De Beers, have been applied and the commonly used commercial bottom cut-off recovery size screen with a 1.50 mm square mesh has been used. These diamond values were then combined with the updated grade information to give modeled revenue per tonne values.

Table 9 shows the weighted average modeled grades, values per carat and revenues per tonne for the four lobes in the 5034 pipe and the various geologic zones in the Hearne pipe. The 5034 pipe has an indicated resource of 8.6 million tonnes and an inferred resource of 4.5 million tonnes, while Hearne has an indicated resource size of 5.5 million tonnes and an inferred resource of 1.6 million tonnes, all to a depth of 290 m below lake surface.

Table 9 - Weighted Average Model Grades

| Pipe | Modeled Grade (Carats per tonne) | Modeled Values (US\$ Carat) | Revenue per tonne (US\$) |
|--------|-------------------------------------|--------------------------------|-----------------------------|
| 5034 | 1.67 | 62.70 | 104.70 |
| Hearne | 1.67 | 50.00 | 83.50 |

The previous valuation of the diamonds from the 1999 and 2001 bulk samples was in August 2001. After September 11, 2001, diamond prices decreased in value by an average of around 20% with more severe decreases in certain categories of diamonds according to industry sources. Since then, De Beers has increased diamond prices twice and on average diamond prices are now nearly back to pre-September 11, 2001 levels. Specifically, the January 2003 valuations of the 1999 and 2001 bulk sample diamonds were on average 5-6% less than the August 2001 valuations for the same diamonds.

The average modeled value per carat of US \$62.70 for the 5034 pipe compares to the average value of US \$65.50 based on the August 2001 price book, reported in December 2001. The drop is slightly less than the average drop in diamond values since then. The weighted average modeled grade for the 5034 pipe increased to 1.67 carats per tonne from 1.64 carats per tonne as reported in December 1999. The upper and lower limits for the value per carat modeling are 18% - 20%.

The average modeled value per carat of US \$50.00 for the Hearne pipe compares to a value of US \$63.30 based on the August 2001 values. The weighted average modeled grade for the Hearne pipe decreased to 1.67 carats per tonne from 1.71 carats per tonne as reported in December 1999. The upper and lower limits for the value per carat modelling are 18% and 16% respectively.

De Beers and the Company's consultant, Overseas Diamonds N.V., have confirmed that a sub-population of high quality, top color diamonds exists in both the 5034 and Hearne pipes. A 3.4 carat diamond recovered from the Hearne pipe is such a diamond and has been valued at US \$7,140. These diamonds represent a significant part of the total value of the diamonds even though they only represent a small fraction of the total number of diamonds.

In 2003, De Beers used a De Beers group composite of a year's production from kimberlite mines with wide ranges of production but similar dollar per carat values, in the value per carat modelling in the over two carat size range. The reason for this is that relatively speaking, only a small number of over two carat diamonds were recovered from the Hearne and 5035 pipes and these diamonds have a wide range of values. This modelling technique models the shape of the revenue curves for the Hearne and 5034 pipes to be similar to the shape of the curves for a composite of producers above the two carat size range. This technique is slightly more conservative than the technique used previously but is more representative of an actual production scenario.

The diamonds recovered from the 1999, 2001 and 2002 bulk samples of the Hearne and 5034 pipes and the 1999 bulk sample of the Tuzo pipe (all to a 1.5 mm lower cutoff), were last valued at the Diamond Trading Company (DTC) using the March 2004 diamond prices. The modeled values per carat, based on those valuations and on production recovery factors as determined by De Beers, were reported on June 16, 2004. Since March 2004, diamond prices have risen due to strong demand and the DTC has increased their selling prices several times. The modeled values per carat for the three pipes were adjusted recently using the August 2004 DTC diamond prices.

The table below shows the weighted average modeled values per carat for the three pipes in March 2004 and August 2004.

| Name of Pipe | March 2004 Modeled Value Per Carat (US\$ per Carat) | August 2004 Modeled Value Per Carat (US\$ per Carat) |
|--------------|--|---|
| 5034 | 74.20 | 79.20 |
| Hearne | 61.00 | 65.00 |
| Tuzo | 49.00 | 53.00 |

The average modeled values per carat increased by an average of approximately 7% between March 2004 and August 2004. The increase since January 2003 has been 25% for the 5034 and 29% for the Hearne pipes.

Feasibility Study Decision

The results of the 2002 bulk sample program of the Hearne and 5034 pipes were reported in April 2003 and the results of the updated desk top study two weeks later. Even though the study shows that estimated capital costs have increased only slightly and that the estimated operating costs have dropped significantly, the effect of lower diamond values (especially for the Hearne pipe) and a lower US dollar against the Canadian dollar since the 2000 desktop study, has resulted in an internal rate of return (IRR) slightly less than that obtained previously. Considering the indicated IRR, which is well below the agreed hurdle rate, combined with the current geo-political environment and uncertainties, De Beers decided to postpone a pre-feasibility decision until the next year when the desktop study would be updated again. In the meantime, De Beers would continue with exploration in the Kelvin-Faraday area with an objective of adding to the existing resource.

At the end of July, 2003, De Beers notified the Company that they had started work on a detailed cost estimate of a pre-feasibility study of the Kennady Lake diamond deposits. They based their decision on the improving geo-political and economic conditions which supported confidence in longer-term diamond price projections. In November 2003, the De Beers board approved a budget of approximately \$25 million for a pre-feasibility study which started in January 2004.

The table below shows the weighted average modeled values per carat for the three pipes in August 2004 and June 2005.

| Name of Pipe | August 2004 Modeled Value Per Carat (US \$ per Carat) | June 2005 Modeled Value Per Carat (US \$ per Carat) |
|--------------|---|---|
| 5034 | \$79.20 | \$85.70 |
| Hearne | \$65.00 | \$70.00 |
| Tuzo | \$53.00 | \$56.00 |

The pre-feasibility study was completed in mid-2005. The projected profitability levels were sufficiently encouraging 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 a definitive feasibility study. On July 11, 2005, De Beers reported an increase in the modeled value of the diamonds for the Gahcho Kue project with the modeled values increasing by approximately 6, 7 and 8 percent for the Tuzo, Hearne and 5034 pipes respectively.

On July 25, 2005, the Joint Venture announced that De Beers had approved a budget of \$38.5 million for the environmental assessment and permitting process and for an advanced exploration program. On November 29, 2005, it was announced that the Joint Venture had submitted an application with the Mackenzie Valley Land and Water Board for permits required to construct and operate a diamond mine at Gahcho Kue. The permit applications have been submitted to the Mackenzie Valley Environmental Impact Review Board for an environmental assessment.

On January 12, 2006, the Joint Venture announced details of the advanced exploration program which commenced in February 2006 and was completed by May 2006.

Other Properties

No work has been done on the Baffin Island Joint Venture since 2001 and the property was written off in fiscal 2004.

Pursuant to the amalgamation of Mountain Glen and Glenmore, the Company's wholly-owned subsidiary, Mountain Glen, acquired mineral properties in Finland. These mineral properties were transferred to the Company when Mountain Glen wound up its affairs.

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

Item 4A. Unresolved Staff Comments

Not Applicable

Item 5. Operating and Financial Review and Prospects

A. *Operating results.*

The following discussion of the financial condition and operating results of the Company should be read in conjunction with the consolidated financial statements and related notes to the financial statements which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Discussion and analysis set forth below covers the results obtained under GAAP in Canada. A significant difference between Canadian and U.S. GAAP exists with respect to accounting for mineral property acquisition and exploration costs which have been capitalized under Canadian GAAP but are required to be expensed under U.S. GAAP when incurred until such time as commercially mineable deposits are determined to exist within a particular property. Material measurement differences between accounting principles generally accepted in Canada and the United States, applicable to the Company, are described in Note 10 to the consolidated financial statements.

Fiscal Year ended March 31, 2006 compared to Fiscal Year ended March 31, 2005

The Company had a loss of \$2,199,888 (or \$0.04 per share) for the fiscal year ended March 31, 2006 ("fiscal 2006"), compared to income of \$1,531,244 (or \$0.03 per share) for the same period ended March 31, 2005 ("fiscal 2005").

Other than operating expenses, the majority of this loss was due to the Company's write down of \$1,080,000 in its long term investment related to Northern Lion Gold Corp. Operating expenses were \$1,132,061 for the year ended March 31, 2006 compared to \$848,502 for the same period ended March 31, 2005. Increased consulting fees for the year (2006 - \$309,217; 2005 - \$141,586) were somewhat offset by lower professional fees (2006 - \$166,150; 2005 - \$235,680) in the year. Included in consulting fees were the amounts paid to Jan Vandersande in his capacity as the former President and CEO until October 31, 2005 in the amount of \$102,127 (2005 - \$131,905), and to Patrick Evans as President and CEO from November 7, 2005 to the yearend in the amount of \$56,074 (2005 - \$nil) as well as recruitment costs and the outside engineering and other consulting associated with the Gahcho Kue Joint Venture. The incremental Professional fees for 2005 included costs associated with listing the Company on Amex with trading beginning April 4, 2005. Also contributing to the net loss for March 31, 2006 is stock-based compensation expense of \$314,879 (2005 - \$189,400) as a result of options granted during the year to an officer of the Company, as well as increased directors' fees and honourarium of \$37,500 for March 31, 2006 compared to \$2,700 for the year ended March 31, 2005. Promotion and investor relations expense has increased from March 31, 2005's level of \$30,503 to \$108,184 for the year ended March 31, 2006 as a result of increased promotion and investor relations activity. Regulatory and filing fees during the year ended March 31, 2006 are less than those of March 31, 2005 (2006 - \$99,794; 2005 - \$114,459) with the completion of the Amex listing application in the March 31, 2005 fiscal year. Office and miscellaneous expenses (2006 - \$43,647; 2005 - \$89,941) are down due to cost cutting measures taken in the year ending March 31, 2005, and low ongoing administration costs for the Company.

Fiscal Year ended March 31, 2005 compared to Fiscal Year ended March 31, 2004

The Company had net earnings for the fiscal year ended March 31, 2005 ("fiscal 2005") totaling \$1,531,244 or \$0.03 per share compared to a loss for the fiscal year ended March 31, 2004 ("fiscal 2004") of \$1,813,005 or \$0.04 per share.

During fiscal 2005, operating expenses were \$848,502 compared to \$1,231,491 in fiscal 2004. The reduction in operating expenses of \$382,989 or 31% was the result of continuing cost cutting measures including (i) reduced consulting fees (\$126,080 in fiscal 2005 and \$182,846 in fiscal 2004), (ii) reduced directors' fees (\$2,700 in fiscal 2005 and \$33,350 in fiscal 2004), and (iii) reduced professional fees (\$235,680 in fiscal 2005 and \$307,441 in fiscal 2004). There was an increase in transfer agent and regulatory fees (\$114,459 in fiscal 2005 and \$37,890 in fiscal 2004) due to listing on the American Stock Exchange and a new expense for stock-based compensation in fiscal 2005 (\$189,400) due to a change in accounting policy for expensing stock options. Commencing April 1, 2004, in accordance with new Canadian accounting standards, the Company expenses the fair value of all stock options. Previously, the Company only recorded stock-based compensation for options that were granted to non-employees. The change in accounting policy was adopted on a retroactive basis without restatement of prior periods.

During fiscal 2005 the Company's interest income was \$13,112 compared to \$12,127 a year earlier. The increase is a result of increased funds available for investment.

In fiscal 2005, there was a gain on the sale of mineral properties in the amount of \$4,226,634 and no similar gain in fiscal 2004. The gain relates mainly to the sale of the Company's remaining 30% interest in its Haveri property in return for 4,000,000 common shares of Northern Lion Gold Corp. The gain and initial value of the 4,000,000 common shares were determined based on the fair value of Northern Lion Gold Corp. shares. This resulted in a gain of \$4,187,634 to the Company on this sale. The Company also recorded a gain of \$39,000 on the sale of the Baffin Island project to Patrician Diamonds Inc. in exchange for 325,000 common shares of Patrician Diamonds Inc. During fiscal 2005, the Company incurred a write-down on long-term investments relating to the decrease in the market price of the Northern Lion Gold Corp. shares subsequent to their acquisition. In fiscal 2005 there was no write-down of mineral properties, however in fiscal 2004 expenses include a write-down of \$589,669 of mineral properties and deferred exploration costs, relating principally to the Baffin Island diamond property.

B. *Liquidity and capital resources.*

Since inception, the Company's capital resources have been limited. The Company has had to rely upon the sale of equity securities to fund property acquisitions, exploration, capital investments and administrative expenses, among other things.

The Company reported working capital of \$808,267 at March 31, 2006 (\$1,040,723 as at March 31, 2005), and cash and cash equivalents of \$845,452 (\$1,001,104 at March 31, 2005). The Company had no long-term debt at either March 31, 2006 or March 31, 2005. The Company does not incur any direct costs in connection with the Gahcho Kue Project as De Beers Canada is responsible for all exploration, development, permitting and evaluation costs to commercial production.

During the year, the Company received \$634,850 by issuing 465,000 shares upon the exercise of various stock options (2005 - \$981,730 issuing 1,408,736 shares upon the exercise of options).

Subsequent to the year-end, the Company received proceeds of \$776,250 through the exercise of options including \$610,000 through the exercise of options by directors. With cash on hand of approximately \$1,330,000 as at June 27, 2006, the Company believes it has sufficient capital for planned spending through fiscal 2007.

The Company expects to continue incurring annual losses until it receives revenue from production on the Gahcho Kué Project, if placed into production. There is no assurance that the property will be developed or placed into production. On July 25, 2005, the Joint Venture announced that De Beers had approved a budget of \$38.5 million for the environmental assessment and permitting process and for an advanced exploration program. On November 29, 2005, it was announced that the Joint Venture had submitted an application with the Mackenzie Valley Land and Water Board for permits required to construct and operate a diamond mine at Gahcho Kue. The permit applications have been submitted to the Mackenzie Valley Environmental Impact Review Board for an environmental assessment.

It is anticipated that the cash and cash equivalents on March 31, 2006 provide the Company with sufficient funds until approximately late calendar 2007. Although the Company has received funds from the exercise of stock options and warrants in the past and the exercise of some outstanding options, which are currently in the money, could conceivably extend that date into calendar 2008, there is no assurance that such stock options will be exercised in which case the Company will consider undertaking an equity financing. It follows that there can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company. If the Company is unable to receive additional funds through the issuance of its shares, it will be required to reduce operations.

As at June 15, 2006, the Company has 505,000 stock options outstanding which are exercisable at prices between \$0.67 and \$4.50 per share. If all of the stock options were exercised, the Company would receive proceeds of \$1,230,800, but there is no assurance that these will be exercised and such exercise cannot be considered to be part of the Company's financing strategy. If all of the options were exercised, to which no assurance can be given that all or any will be exercised, these funds would be available to the Company as working capital.

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

The Company does not engage in any research and development activities and has not patents or licenses.

D. *Trend information.*

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

E. *Off-balance sheet arrangements.*

The Company has no off balance sheet arrangements.

F. *Tabular disclosure of contractual obligations.*

The Company has no contractual obligations relating to debt or lease obligations as at March 31, 2006.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used in determining the application of the going concern concept, the continual deferral of costs incurred for mineral properties and deferred exploration, assumptions used to determine the fair value of stock-based compensation, and impairment of long-term investment. The Company evaluates its estimates on an ongoing basis and bases them on various assumptions that are believed to be reasonable under the circumstances. The Company's estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the policies for going concern, mineral properties and deferred exploration are critical accounting policies that affect the significant judgments and estimates used in the preparation of the Company's financial statements.

The Company considers that its mineral properties have the characteristics of property, plant and equipment, and, accordingly defers acquisition and exploration costs under Canadian generally accepted accounting principles. The recoverability of mineral property acquisition and deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves and on the future profitable production, or proceeds from disposition, of the Company's properties. The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain mineral reserves that are economically recoverable. Development of any property may take years to complete and the amount of resulting income, if any, is difficult to determine with any certainty. The sales value of any mineralization discovered by the Company is largely dependent upon factors beyond the Company's control, such as the market value of the diamonds recovered.

Changes in circumstances in the future, many of which are outside of management's control, will impact on the Company's estimates of future recoverability of net amounts to be realized from their assets. Such factors include, but are not limited to, the availability of financing, the identification of economically recoverable reserves, co-venturer decisions and developments, market prices of minerals, the Company's plans and intentions with respect to its assets and other industry and competitor developments.

While the Company believes that economically recoverable reserves will be identified, there is no assurance that this will occur. Failure to discover economically recoverable reserves will require the Company to write-off costs capitalized to date and will result in further reported losses.

The consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company believes that it has the ability to obtain the necessary financing to meet commitments and liabilities as they become payable and that economically recoverable reserves will be discovered. The costs of further exploration of the AK claims are being borne by De Beers Canada.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock-based compensation recognized. Estimates and assumptions are required under the model, including those related to the Company's stock volatility, expected life of options granted, and the risk free interest rate. The Company believes that its estimates used in arriving at stock-based compensation are reasonable under the circumstances.

The Company's long term investment of shares in Northern Lion Gold Corp. is considered to be impaired if a decline in value is considered to be other than temporary. During the year ended March 31, 2006, the Company wrote down its investment equal to the quoted market price of the Northern Lion Gold Corp. shares at the time, as it considered the decline in the investment to be other than temporary.

Effect of Inflation

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

U.S. Generally Accepted Accounting Principles

U.S. GAAP differs in some respects from Canadian GAAP, as applied to the Company. Reference should be made to Item 3A - Selected Financial Data, and Note 10 to the Consolidated Financial Statements of the Company for a description and quantification of material measurement differences between Canadian GAAP and U.S. GAAP.

Item 6. Directors, Senior Management and Employees

A. *Directors and senior management.*

The following table lists, as of June 15, 2006, the names of the directors and senior management of the Company. The directors and senior management have served in their respective capacities since their election and/or appointment and will serve until the next Annual General Meeting of Shareholders or until a successor is duly elected, unless the office is vacated in accordance with the Company's Articles or unless there is a prior resignation or termination.

| Name | Position with Company | Date of First Appointment | Age |
|-----------------------|---|--|------------|
| Jonathan Comerford | Chairman and Director ⁽¹⁾⁽²⁾⁽³⁾ | Chairman of the Company since May 11, 2006 and Director since September 21, 2001. | 34 |
| Patrick Evans | President, Chief Executive Officer and Director | President and director of the Company since November 15, 2005. | 51 |
| Jennifer Dawson | Chief Financial Officer | Chief Financial Officer since May 11, 2006 | 45 |
| Carl Verley | Director ⁽¹⁾⁽²⁾⁽³⁾ | Director of Old MPV since December 2, 1986 and Director of the Company since November 1, 1997. | 56 |
| David E. Whittle | Director ⁽¹⁾⁽²⁾⁽³⁾ | Saturday, November 01, 1997 | 42 |
| D. Harry W. Dobson | Director | Saturday, November 01, 1997 | 58 |
| Elizabeth J. Kirkwood | Director | Director since September 21, 2001. | 56 |

- (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.

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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)

A director of the Company since September, 2001 and Chairman since April 2006. Mr. Comerford is resident in Dublin, Ireland. Mr. Comerford 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 is Investment Manager at IIU Limited (since August, 1995). Jonathan Comerford represents the Company's largest shareholder, Bottin (International) Investments Ltd. on the Company's board.

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

President, CEO and a director of the Company since November 2005. He is a resident of Wisconsin, USA. Mr. Evans is a graduate of the University of Cape Town where he received his Bachelor of Arts degree in 1977 and Bachelor of Science degree in 1978. He was a career diplomat from 1979 to 1998. In 1999, he was appointed a Vice President of Placer Dome Inc. and a non-executive director of SouthernEra Resources Ltd. In 2001 he was appointed President and CEO of SouthernEra Resources Ltd. and Messina Limited. In 2004, he was appointed President, CEO and a director of Southern Platinum Corp, 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., which was acquired by Eramet S.A. in May 2006.

Jennifer M. Dawson, B.B.A.

Chief Financial Officer and Corporate Secretary since May 2006. She is a resident of Ontario, Canada. Ms. Dawson is a graduate of St. Francis Xavier University where she received her Bachelor of Business Administration in 1984. Her work experience includes public accounting experience with Touche Ross & Co. (now Deloitte), and financial management experience with CCH Canadian Limited and Genesis Media Inc. She provided financial support to SouthernEra Resources Ltd. in its corporate reorganization in 2004, and ongoing financial support to both SouthernEra Diamonds Inc. and to Southern Platinum Corp. after the reorganization. In addition to her CFO and Corporate Secretary roles with the Company, she provides financial and administrative services to Arizona Star Resource Corp.

Elizabeth J. Kirkwood

Ms. Elizabeth J. Kirkwood has been a director of the Company since September, 2001 and Chairman of the Board of the Company since January 2003. She was appointed Chief Financial Officer on September 16, 2003 and Corporate Secretary of the Company on November 6, 2003. She is resident in Ontario, Canada, and a member of the Prospectors and Developers Association of Canada. Ms. Kirkwood was the President and CEO of First Nickel Inc. (November 2003 to June 2006). She is also a director of Intrepid Minerals Corporation (since April 1999) Canadian Shield Resources Inc. (since June 2005) and Everbright Capital Corporation (since June 2005). She has been a past director of Investor Links.com (March 1993-May 2001), Canada's Choice Spring Water (July 1996-August 1999), Stroud Resources Ltd. (August, 2000 - March 2002) and a past director and officer of O.S.E Corp. (formerly Oil Springs Energy Corp. (July, 1993- June 2005), Hucamp Mines Limited (May 2001-May 2002), and First Strike Diamonds Inc. (October 1995 - March 2004).

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

A director of Old MPV since December 1986 and a director of the Company since November 1997. He is a resident of British Columbia, Canada. Mr. Verley is a graduate of the University of British Columbia where he received his Bachelor of Science Degree in May of 1974. From August of 1990 to January 2002, he has served on the Board of

Directors of Gee-Ten Ventures Inc. In August of 1991, the Association of Professional Engineers and Geoscientists of British Columbia awarded him the professional designation of Professional Geologist. He has been a self-employed geologist since 1982. Since July 2003, he has been a director of La Plata Gold Corporation.

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

A director of the Company since November 1997. He is a resident of British Columbia, Canada. A Chartered Accountant, Mr. Whittle was employed with Coopers & Lybrand, Chartered Accountants, from 1987 to 1992. From 1992 through 2004, Mr. Whittle served as operator or partner of a financial consulting and chartered accounting practice. From 1993 to June 2000, Mr. Whittle was President and director of Glenmore Highlands Inc. and President and director of 444965 B.C. Ltd. From November 1997 to April 1998, Mr. Whittle served as Secretary of the Company. From 1994 to January 1998, Mr. Whittle was CFO and a director of Lytton Minerals Limited. From 1993 to January 1998, Mr. Whittle was CFO, Corporate Secretary and a director of New Indigo Resources Inc. Currently, Mr. Whittle is Chief Financial Officer of Hillsborough Resources Limited and a director of Image Innovations Holdings Inc.

D. Harry W. Dobson

A director of the Company since November 1997. He is a resident of Scotland. Mr. Dobson was the founder and chairman of American Pacific Mining Company Inc. and a director of Breakwater Resources Ltd. until 1991. Subsequent to 1991, Mr. Dobson served as Deputy Chairman of the Board and a director of Lytton Minerals Limited. He is a former officer and director of 444965 B.C. Ltd., and served as a director and Chairman of Glenmore Highlands Inc. Since October 2001, he has been a director and officer of Kirkland Lake Gold Inc.

Compensation for the directors has been approved effective April 1, 2005 at the following levels: the Chairman of the Board receives \$10,000 per annum, the Chairman of the Audit Committee receives \$7,500 per annum, and all other Directors receive \$5,000 per annum. All are paid semi-monthly, in advance.

B. Compensation.

The Company has two executive officers (collectively, the "Executive Officers"): Patrick Evans, the President and CEO, and Jennifer Dawson, the Chief Financial Officer and Corporate Secretary. Elizabeth Kirkwood held the positions of Chief Financial Officer and Corporate Secretary for the most recently completed financial year, and Jan Vandersande held the position of President and CEO until October 31, 2005. 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 detailed in the table below:

Summary Compensation Table

| | | Annual Compensation | | | Long Term Compensation | | | |
|--|-----------------------|---------------------|------------|--------------------------------|------------------------|-----|---|---|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation (\$) | Awards | | Payouts | |
| Name and Principal Position of Named Executive Officer | Financial Year Ending | | | | | | Securities Under Options / SARs Granted (#) | Shares or Units Subject to Resale Restrictions (\$) |
| Patrick Evans ⁽¹⁾ | 2006 | Nil | Nil | \$58,157 | 200,000 ⁽²⁾ | Nil | Nil | Nil |

| | | | | | | | | |
|---|------|-----|-----|-----------|-----|-----|-----|-----|
| President and Chief Executive Officer (started November 1, 2005) | | | | | | | | |
| Jan W. Vandesande ⁽³⁾ President and Chief Executive Officer (until October 31, 2005) | 2006 | Nil | Nil | \$102,127 | Nil | Nil | Nil | Nil |
| Elizabeth Kirkwood ⁽⁴⁾ Chairman, Chief Financial Officer and Corporate Secretary (until May 10, 2006) | 2006 | Nil | Nil | \$34,000 | Nil | Nil | Nil | Nil |

(1) \$56,074 was paid to Patrick Evans pursuant to a Consulting Agreement for his services as President and CEO, as well as a prorated director's fee of \$2,083 for the year ended March 31, 2006.

(2) Options granted as follows: 100,000 options granted November 1, 2005 with 50,000 vesting upon acceptance of the Consulting Agreement and 50,000 vesting on the first anniversary of acceptance of the Consulting Agreement - all have an exercise price of \$2.63, and are exercisable for a period of 5 years; and 100,000 options granted on January 30, 2006 with an exercise price of \$4.50 and with 50% of the options vesting immediately, and 50% vesting January 31, 2007. All 100,000 options granted January 30, 2006 are exercisable for a period of 5 years from grant.

(3) These monies were paid to Dr. Vandersande pursuant to a consulting agreement. This amount includes drug, medical and dental benefits paid to Dr. Vandersande.

(4) Includes \$18,000 paid to a company which is wholly owned by Elizabeth Kirkwood in consideration for accounting and corporate services performed by her, \$6,000 for consulting services provided by her to the Company, and \$10,000 for director's fees in her capacity as Chairman of the Board for the year ended March 31, 2006.

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

The following table sets out incentive stock options exercised by the Executive Officers during the most recently completed financial year, as well as the financial year end value of stock options held by the Executive Officers. During this period, no outstanding SARs were held by the Executive Officers.

| Name | Securities, Acquired on Exercise (#) | Aggregate Value Realized (\$) ⁽¹⁾ | Unexercised Options at Financial Year-End Exercisable / Unexercisable (#) | Value of Unexercised In-the-Money Options at Financial Year-End Exercisable / Unexercisable (\$) ⁽²⁾ |
|---|---|---|--|--|
| Elizabeth Kirkwood (until May 10, 2006) | 10,000 | \$12,600 | 80,000/Nil | 244,400/Nil |
| Patrick Evans (since November 1, 2005) | Nil | Nil | 100,000/100,000 | 122,500/122,500 |
| Jan W. Vandersande (until October 31, 2005) | 170,000 | \$255,250 | Nil/Nil | Nil/Nil |

(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 March 31, 2006, (ie. financial year end) was \$4.79.

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 members 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. The next Annual General Meeting of the shareholders of the Company has been scheduled for September 13, 2006.

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

Audit Committee

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

The current members of the Audit Committee are Jonathan Comerford, Carl Verley and David Whittle. Except for the chairman (as described in Item 6.B), 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.

Nominating/Corporate Governance Committee

The members of the Corporate Governance Committee are Jonathan Comerford, David Whittle and Carl Verley, a majority of whom are unrelated.

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

Compensation Committee

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

D.**Employees.**

As at the end of the fiscal years March 31, 2006, March 31, 2005, and March 31, 2004, the Company had no full-time employees (not including the former President and CEO Jan Vandersande, the current President and CEO, Patrick Evans, and the former CFO and Corporate Secretary, Elizabeth Kirkwood). The Toronto administrative and executive office uses outsourced administrative assistance on a part-time basis.

De Beers Canada employs personnel who conduct the exploration, permitting and other activities on the AK Property.

E.**Share ownership.**

The following table sets forth, as of June 15, 2006, the number of the Company's common shares beneficially owned by (a) the directors and members of senior management of the Company, individually, and as a group, and (b) the percentage ownership of the outstanding common shares represented by such shares. The security holders listed below are deemed to be the beneficial owners of common shares underlying options and warrants which are exercisable within 60 days from the above date.

| Name of Beneficial Owner ⁽¹¹⁾ | Amount and Nature | Percentage⁽⁹⁾ of Class (No. of shares, options + warrants held by owner divided by total issued and outstanding⁽¹⁰⁾ plus no. of options held by owner multiplied by 100) |
|---|--------------------------|---|
| D. Harry Dobson ⁽¹⁾ | 1,192,510 | 2.2% |
| Patrick C. Evans ⁽²⁾ | 269,500 | *% |
| Carl G. Verley ⁽³⁾ | 225,250 | *% |
| David E. Whittle ⁽⁴⁾ | 185,000 | *% |
| Jonathan Comerford ⁽⁵⁾ | 150,000 | *% |
| Elizabeth J. Kirkwood ⁽⁶⁾ | 80,000 | *% |
| Jan W. Vandersande ⁽⁷⁾ | 36,000 | *% |
| Officer and Directors as a Group ⁽⁸⁾ | 2,138,260 | 4.0% |

* less than 1%

(1) Includes 1,192,510 shares and nil options.

(2) Includes 69,500 shares and 100,000 options (exercisable presently or within 60 days). 50,000 options are exercisable at a price of \$2.63 per share and expire on November 1, 2010. 50,000 options are exercisable at a price of \$4.50 per share and expire on January 30, 2011.

(3) Includes 225,250 shares and nil options.

(4) Includes 185,000 shares and nil options.

(5)

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Includes nil shares and 150,000 options (exercisable presently or within 60 days). The options are exercisable at a price of \$1.96 per share and expire on October 1, 2009.

(6) Includes nil shares and 80,000 options (exercisable presently or within 60 days). 30,000 options are exercisable at a price of \$1.36 per share and expire on October 21, 2007 and 50,000 options are exercisable at a price of \$1.96 per share and expire on October 1, 2009.

(7) Includes 36,000 shares and nil options.

(8) Includes 1,708,260 shares and 505,000 options (exercisable presently or within 60 days).

(9) The calculation does not include stock options that are not exercisable presently or within 60 days.

(10) Total issued and outstanding capital as at the close of June 15, 2006 was 53,630,847 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 June 15, 2006, the Company's issued and outstanding capital was 53,630,847 shares.

The Company is a publicly-owned corporation the majority of the common 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 June 15, 2006, the Company believes that approximately 13,344,544 of the issued and outstanding common shares were held by 83 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 June 15, 2006) and percentage of shares, warrants and options held by the Company's major shareholders on a partially diluted basis.

The percentage ownerships for the major shareholders has decreased slightly because of new shares issued by the Company to June 15, 2006.

| Name of Shareholder | No. of Shares Held | Percentage of issued and outstanding share capital of 53,630,847 shares (as at June 15, 2006) |
|--|--------------------|---|
| Bottin (International) Investments Ltd. (controlled by Dermot Desmond) | 13,253,430 | 24.70% |
| Desmond P. Sharkey Dublin, Ireland | 5,206,001 | 9.70% |
| De Beers Canada Exploration Ltd. (formerly Monopros Limited) | 3,103,543 | 5.80% |

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

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

B. *Related party transactions.*

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

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

Both Mr. Evans and Ms. Dawson have Consulting Agreements with the Company. See Item 10C - Material Contracts.

The Company entered into a Corporate Services Agreement effective September 1, 2003 with 1014620 Ontario Inc. Elizabeth J. Kirkwood, the Chairman, Chief Financial Officer, Secretary and a director of the Company until May 10, 2006, is also the sole director, officer and shareholder of 1014620 Ontario Inc. Under the Corporate Services Agreement, the Company retained 1014620 Ontario Inc. to provide bookkeeping and accounting services (including cash-flow management, accounts payable, accounts receivable, government remittances, preparing unaudited interim financial statements, and assisting the Company in the preparation of the audited year-end financial statements) and corporate secretarial services (including the preparation, dissemination and filing of all press releases and material change reports and any and all agendas, minutes, reports and proxy materials that are required by a publicly traded company, including filing all such press releases, notices, reports and financial statements on SEDAR) (the "Corporate Services").

The two-year term of the Corporate Services Agreement expired on August 31, 2005. During the term, 1014620 Ontario Inc. was paid a monthly fee of \$3,000 (\$36,000 *per annum*) for providing the Corporate Services, and was also reimbursed for all reasonable out-of-pocket expenses properly incurred in connection with the performance of the Corporate Services. During the year ended March 31, 2006, the Company paid \$18,000 for corporate services to 1014620 Ontario Inc. before the Corporate Services Agreement was terminated on September 30, 2005. Ms. Kirkwood was also paid \$6,000 for consulting services in the year ended March 31, 2006.

During the year ended March 31, 2006, Elizabeth Kirkwood, in her individual capacity, also earned \$10,000 for the director's fees in her capacity as Chairperson of the Board. Directors fees were also earned by the following directors: David Whittle (\$7,500 in his capacity as Chair of the Audit Committee), Carl Verley (\$5,000), Patrick Evans (\$5,000 prorated for part year service), Harry Dobson (\$5,000) and Jonathan Comerford (\$5,000).

During the year ended March 31, 2006, the Company paid a total of \$102,127 to Jan W. Vandersande, the former President, Chief Executive Officer and a director of the Company, for consulting, management, property evaluation and administration services to the Company and for drug, medical and dental benefits. 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.

The Company has a Consulting Agreement with Patrick Evans for his services as President and CEO effective November 1, 2005. The monthly consulting fee under the Consulting Agreement is \$12,500, and in the year ended March 31, 2006, the Company paid a total of \$56,074.

The Company signed a Consulting Agreement with Jennifer Dawson for her services as Chief Financial Officer and Corporate Secretary, effective May 11, 2006. There were no amounts paid to her in the year ended March 31, 2006.

As of March 31, 2006, the Company owed \$3,000 to David Whittle, a director of the Company. This was in respect of an account that Mr. Whittle had paid on behalf of Glenmore. The Company proposes to pay Mr. Whittle the outstanding amount this year and otherwise there is no indebtedness amongst the directors and the Company other than amounts payable for director fees for April 1, 2005 to March 31, 2006 of \$37,500 in total as described above.

For further particulars on related party transactions, see note 8 to the Company's Consolidated Financial Statements for the years ended March 31, 2006, 2005 and 2004, in Item 19.

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 March 31, 2006 and 2005 and for the fiscal years ended March 31, 2006, 2005 and 2004, accompanied by the report of our independent registered accounting firm.

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.

Item 9. The Offer and Listing.

A. Offer and listing details.

The common shares of the Company were listed and posted for trading on The Toronto Stock Exchange (the "TSX") on January 22, 1999. The Company's shares were delisted from the Vancouver Stock Exchange ("VSE", now known as the TSX Venture Exchange and before that, the Canadian Venture Exchange ("CDNX")) on January 31, 2000, and from the Nasdaq Smallcap Market on September 29, 2000. The Company's shares traded on the NASD's OTC-Bulletin Board ("NASDAQ OTCBB") under the symbol "MPVI" until June 1, 2005. Commencing on April 1, 2005, the Company's shares were listed for trading on the AMEX under the symbol "MDM".

The following tables set forth the reported high and low prices on the TSX, and for Nasdaq and/or NASD OTCBB (combined for the period ended March 2006), for (a) the five most recent fiscal years; (b) each quarterly period for the past two fiscal years, and for the most recent six months.

| High and Low Prices for the Five Most Recent Fiscal Years | | | | |
|--|---------------------|--------------------|---|-------------------|
| Fiscal Year Ended | TSX | | NASDAQ ⁽¹⁾ / NASD OTCBB | |
| | High (CDN\$) | Low (CDN\$) | High (US\$) | Low (US\$) |
| Friday, March 31, 2006 | \$4.90 | \$2.26 | \$4.26 | \$1.90 |
| Thursday, March 31, 2005 | \$2.68 | \$1.61 | \$2.00 | \$1.19 |
| Wednesday, March 31, 2004 | \$3.00 | \$0.60 | \$2.25 | \$0.37 |
| Monday, March 31, 2003 | \$2.26 | \$0.62 | \$1.55 | \$0.39 |
| Sunday, March 31, 2002 | \$1.50 | \$0.44 | \$1.08 | \$0.27 |

(1) The Company's shares were listed on the Nasdaq Smallcap Market on May 1, 1996 and delisted from the Nasdaq Smallcap Market on September 29, 2000, at which time they commenced trading on the NASD OTCBB and continued through April 1, 2005. On April 4, 2005 the Company's shares began trading on the AMEX.

| High and Low Prices for Each Quarterly Period for the Past Two Fiscal Years | | | | |
|--|---------------------|--------------------|--------------------|-------------------|
| Period Ended: | TSX | | NASD OTCBB | |
| | High (CDN\$) | Low (CDN\$) | High (US\$) | Low (US\$) |
| Friday, March 31, 2006 | \$4.96 | \$3.47 | \$4.38 | \$2.97 |
| Dec. 31, 2005 | \$3.73 | \$2.20 | \$3.25 | \$1.85 |

| | | | | |
|------------------------------|--------|--------|--------|--------|
| Friday, September 30, 2005 | \$3.05 | \$2.15 | \$2.55 | \$1.83 |
| Thursday, June 30, 2005 | \$3.44 | \$2.25 | \$2.81 | \$1.83 |
| Thursday, March 31, 2005 | \$2.50 | \$1.60 | \$1.96 | \$1.31 |
| Dec. 31, 2004 | \$2.01 | \$1.60 | \$1.64 | \$1.35 |
| Thursday, September 30, 2004 | \$2.30 | \$1.62 | \$1.77 | \$1.24 |
| Wednesday, June 30, 2004 | \$2.68 | \$1.61 | \$2.00 | \$1.19 |

| High and Low Prices for the Most Recent Six Months | | | | |
|---|--------------------|------------|---|------------|
| | TSX (CDN\$) | | NASD OTCBB (US\$)/AMEX⁽¹⁾ | |
| Month Ended | High | Low | High | Low |
| Saturday, December 31, 2005 | \$3.68 | \$3.26 | \$3.25 | \$2.70 |
| Tuesday, January 31, 2006 | \$4.70 | \$3.47 | \$4.05 | \$2.97 |
| Tuesday, February 28, 2006 | \$4.90 | \$4.04 | \$4.30 | \$3.40 |
| Friday, March 31, 2006 | \$4.90 | \$4.40 | \$4.38 | \$3.60 |
| Sunday, April 30, 2006 | \$5.05 | \$3.80 | \$4.40 | \$3.38 |
| Wednesday, May 31, 2006 | \$4.42 | \$3.47 | \$4.03 | \$3.17 |

(1) On April 4, 2005 the Company's Common Shares began trading on the American Stock Exchange. On March 31, 2006 (being the last trading day for the year ended March 31, 2006), the closing price of the Common Shares on the TSX was \$4.79 per share and on June 15, 2006 was \$3.32. The shares commenced trading on AMEX on April 4, 2005 and the closing price of the Common Shares on March 31, 2006 was US\$4.07 per share. The closing price on June 15, 2006 on the AMEX was US\$ 2.88 per share.

B. Plan of distribution.

Not Applicable.

C. Markets.

The Company's shares are listed on the Toronto Stock Exchange 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 under the symbol "MDM". The Common Shares are not registered to trade in the United States in the form of American Depository Receipts or similar certificates.

D. Selling shareholders.

Not Applicable.

E. Dilution.

Not Applicable.

F. Expenses of the issue.

Not Applicable.

Item 10. Additional Information.

A. *Share capital.*

This Form 20-F is being filed as an annual report and, as such, there is no requirement to provide information under this sub-item.

B. *Memorandum and articles of association.*

Incorporation

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

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

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

The Company was amalgamated under the British Columbia *Company Act* (the "Company Act"), which has now been replaced by the British Columbia *Business Corporations Act* (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. On September 20, 2005, the Shareholders approved a special resolution for the continuance of the Company into Ontario.

Powers, functions and qualifications of Directors

The powers and functions of directors are set forth in the Ontario Securities Act (OSA) 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;
- e) An arrangement by way of security granted by the Company for money loaned to, or obligations undertaken by, the director or senior officer, or a person in whom the director or senior officer has a material interest, for the benefit of the Company or an affiliate of the Company;
- f) A loan to the Company, which a director or senior officer or a specified corporation or a specified firm in which he has a material interest has guaranteed or joined in guaranteeing the repayment of the loan or any part of the loan;

- g) Any contract or transaction made or to be made with, or for the benefit of a corporation that is affiliated with the Company and the director or senior officer is also a director or senior officer of that corporation or an affiliate of that corporation;
- h) Any contract by a director to subscribe for or underwrite shares or debentures to be issued by the Company or a subsidiary of the Company;
- i) Determining the remuneration of the director or senior officer in that person's capacity as director, officer, employee or agent of the Company or an affiliate of the Company;
- j) Purchasing and maintaining insurance to cover a director or senior officer against liability incurred by them as a director or senior officer; or
- k) The indemnification of any director or senior officer by the Company.

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 Company's authorized and issued 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 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 majority vote of not less than two-thirds of the votes cast by shareholders voting in person or by proxy at a meeting of the shareholders of the Company.

Annual General Meetings

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

Foreign Ownership Limitations

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

Change of Control

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

Share Ownership Reporting Obligations

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

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

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

C. *Material contracts.*

The following is a list of material contracts, other than contracts entered into in the ordinary course of business, to which the Company or any member of the group is a party, for the two years immediately preceding publication of the document, including dates, parties, general nature of the contracts, terms and conditions, and amount of any consideration passing to or from the company or any other member of the group.

1. Consulting Agreement dated January 1, 2004 between the Company and Jan W. Vandersande pursuant to which the Consulting Agreement between the same parties dated June 1, 1997 (as amended) was terminated in consideration for the payment to Dr. Vandersande of the sum of US\$120,000, payable monthly in 12 equal installments and the issuance of 60,000 common shares of the Company from the pool of shares available for stock option grants under the Company's Stock Option Plan. 55,000 of these shares were held in escrow pursuant to an escrow agreement for release monthly in 11 equal installments.

Under the terms of the 2004 Consulting Agreement, Dr. Vandersande agreed to provide certain services to the Company for a term of three years in consideration for a fee of US\$7,500 per month. The Consulting Agreement with Dr. Vandersande terminated on October 31, 2005.

2. Consulting Agreement with Patrick Evans, as President and CEO and director, effective November 1, 2005 at a monthly rate of \$12,500.00.
3. Consulting Agreement with Jennifer Dawson to act as Chief Financial Officer and Corporate Secretary, effective May 11, 2006 at an hourly rate for hours worked.

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".

The Investment Canada Act (the "Act"), enacted on June 20, 1985, requires prior notification to the Government of Canada on the "acquisition of control" of Canadian businesses by non-Canadians, as defined in the Act. Certain acquisitions of control, discussed below, are also to be reviewed by the Government of Canada. The term "acquisition of control" is defined as any one or more non-Canadian persons acquiring all or substantially all of the assets used in the Canadian business, or the acquisition of the voting shares of a Canadian corporation carrying on the Canadian business or the acquisition of the voting interests of an entity controlling or carrying on the Canadian business. The acquisition of the majority of the outstanding shares is deemed to be an "acquisition of control" of a corporation. The acquisition of less than a majority, but one-third or more, of the outstanding voting shares of a corporation is presumed to be an "acquisition of control" of a corporation unless it can be established that the purchaser will not control the corporation.

Investments requiring notification and review are all direct acquisitions of Canadian businesses with assets of CDN\$5,000,000 or more (subject to the comments below on WTO investors), and all indirect acquisitions of Canadian businesses (subject to the comments below on WTO investors) with assets of more than CDN\$50,000,000 or with assets of between CDN\$5,000,000 and CDN\$50,000,000 which represent more than 50% of the value of the total international transaction. In addition, specific acquisitions or new businesses in designated types of business activities related to Canada's cultural heritage or national identity could be reviewed if the Government of Canada considers that it is in the public interest to do so.

The Act was amended with the implementation of the Agreement establishing the World Trade Organization ("WTO") to provide for special review thresholds for "WTO investors", as defined in the Act. "WTO investor" generally means (i) an individual, other than a Canadian, who is a national of a WTO member (such as, for example, the United States), or who has the right of permanent residence in relation to that WTO member, (ii) governments of WTO members, and (iii) entities that are not Canadian controlled, but which are WTO investor controlled, as determined by rules specified in the Act. The special review thresholds for WTO investors do not apply, and the general rules described above do apply, to the acquisition of control of certain types of businesses specified in the Act, including a business that is a "cultural business". If the WTO investor rules apply, an investment in the shares of the Company by or from a WTO investor will be reviewable only if it is an investment to acquire control of the Company and the value of the assets of the Company is equal to or greater than a specified amount (the "WTO Review Threshold"). The WTO Review Threshold is adjusted annually by a formula relating to increases in the nominal gross domestic product of Canada. The 2005 WTO Review Threshold is CDN\$250,000,000.

If any non-Canadian, whether or not a WTO investor, acquires control of the Company by the acquisition of shares, but the transaction is not reviewable as described above, the non-Canadian is required to notify the Canadian government and to provide certain basic information relating to the investment. A non-Canadian, whether or not a WTO investor, is also required to provide a notice to the government on the establishment of a new Canadian business. If the business of the Company is then a prescribed type of business activity related to Canada's cultural heritage or national identity, and if the Canadian government considers it to be in the public interest to do so, then the Canadian government may give notice in writing within 21 days requiring the investment to be reviewed.

For non-Canadians (other than WTO investors), an indirect acquisition of control, by the acquisition of voting interests of an entity that directly or indirectly controls the Company, is reviewable if the value of the assets of the Company is then CDN\$50,000,000 or more. If the WTO investor rules apply, then this requirement does not apply to a WTO investor, or to a person acquiring the entity from a WTO investor.

Special rules specified in the Act apply if the value of the assets of the Company is more than 50% of the value of the entity so acquired. By these special rules, if the non-Canadian (whether or not a WTO investor) is acquiring control of an entity that directly or indirectly controls the company, and the value of the assets of the Company and all other entities carrying on business in Canada, calculated in the manner provided in the Act and the regulations under the Act, is more than 50% of the value, calculated in the manner provided in the Act and the regulations under the Act, of the assets of all entities, the control of which is acquired, directly or indirectly, in the transition of which the acquisition of control of the Company forms a part, then the thresholds for a direct acquisition of control as discussed above will apply, that is, a WTO Review Threshold of CDN\$250,000,000 (in 2005) for a WTO investor or a threshold of CDN\$ 5,000,000 for a non-Canadian other than a WTO investor. If the value exceeds that level, then the transaction must be reviewed in the same manner as a direct acquisition of control by the purchase of shares of the Company.

If an investment is reviewable, an application for review in the form prescribed by the regulations is normally required to be filed with the Director appointed under the Act (the "Director") prior to the investment taking place and the investment may not be consummated until the review has been completed. There are, however, certain exceptions. Applications concerning indirect acquisitions may be filed up to 30 days after the investment is consummated and applications concerning reviewable investments in culture-sensitive sectors are required upon receipt of a notice for review. In addition, the Minister (a person designated as such under the Act) may permit an investment to be consummated prior to completion of the review, if he is satisfied that delay would cause undue hardship to the acquiror or jeopardize the operations of the Canadian business that is being acquired. The Director will submit the application to the Minister, together with any other information or written undertakings given by the acquiror and any representation submitted to the Director by a province that is likely to be significantly affected by the investment.

The Minister will then determine whether the investment is likely to be of net benefit to Canada, taking into account the information provided and having regard to certain factors of assessment where they are relevant. Some of the factors to be considered are (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.

The Act sets certain time limits for the Director and the Minister. Within 45 days after a completed application has been received, the Minister must notify the acquiror that (a) he is satisfied that the investment is likely to be of net benefit to Canada, or (b) he is unable to complete his review, in which case he shall have 30 additional days to complete his review (unless the acquiror agrees to a longer period), or (c) he is not satisfied that the investment is likely to be of net benefit to Canada.

Where the Minister has advised the acquiror that he is not satisfied that the investment is likely to be of net benefit to Canada, the acquiror 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 acquiror and the Minister). On the expiration of the 30 day period (or the agreed extension), the Minister must forthwith 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 acquiror may not proceed with the investment or, if the investment has already been consummated, must divest itself of control of the Canadian business.

The Act provides civil remedies for non-compliance with any provision. There are also criminal penalties for breach of confidentiality or providing false information.

E.

Taxation.

A brief description of certain provisions of the tax treaty between Canada and the United States is included below, together with a brief outline of certain taxes, including withholding provisions, to which United States security holders are subject under existing laws and regulations of Canada. The consequences, if any, of provincial, state and local taxes are not considered.

The following information is general and security holders 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 and of any provincial, state or local taxes.

Certain Canadian Federal Income Tax Consequences

The discussion under this heading summarizes the principal Canadian federal income tax consequences of acquiring, holding and disposing of shares of common stock of the Company for a shareholder of the Company who is not a resident of Canada but is a resident of the United States and who will acquire and hold shares of common stock of the Company as capital property for the purposes of the *Income Tax Act* (Canada) (the "Canadian Tax Act"). This summary does not apply to a shareholder who has carried on business in Canada through a "permanent establishment" situated in Canada or performs independent personal services in Canada through a fixed base in Canada if the shareholder's holding in the Company is effectively connected with such permanent establishment or fixed base. This summary is based on the provisions of the Canadian Tax Act and the regulations to it and on the Company's understanding of the administrative practices of Canada Revenue Agency, 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 as of the date hereof. It has been assumed that there will be no other relevant amendment of any governing law although no assurance can be given in this respect. 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 Canada-United States Income Tax Convention (1980), as amended (the "Convention").

Dividends on Common Shares and Other Income

Under the Canadian Tax Act, a non-resident of Canada is generally subject to Canadian withholding tax at the rate of 25 percent on dividends paid or deemed to have been paid to him or her by a corporation resident in Canada. The Convention limits the rate to 15 percent if the shareholder is a resident of the United States and the dividends are beneficially owned by and paid to such shareholder, and to 5 percent if the shareholder is also a corporation that beneficially owns at least 10 percent of the voting stock of the payor corporation.

The amount of a stock dividend (for tax purposes) would generally be equal to the amount by which the paid up or stated capital of the Company had increased by reason of the payment of such dividend. The Corporation will furnish additional tax information to shareholders in the event of such a dividend.

The Convention generally exempts from Canadian income tax dividends paid to a religious, scientific, literary, educational or charitable organization or to an organization constituted and operated exclusively to administer a pension, retirement or employee benefit fund or plan, if the organization is a resident of the United States and is exempt from income tax under the laws of the United States.

The tax payable on dividends is to be withheld at source by the Company or people acting on its behalf. The Company is liable for the amount of the tax, penalties and interest if it fails to so withhold. The taxpayer is liable in any event if the Company fails to withhold.

Dispositions of Common Shares

Under the Canadian Tax Act, a taxpayer's capital gain or capital loss from a disposition of a share of common stock of the Company is the amount, if any, by which his or her proceeds of disposition exceed (or are exceeded by, respectively) the aggregate of his or her adjusted cost base of the share and reasonable expenses of disposition. The capital gain or loss must be computed in Canadian currency using a weighted average adjusted cost base for identical properties. Fifty percent of a capital gain are included in income. The amount by which a shareholder's capital loss exceeds the capital gain in a year may be deducted from a capital gain realized by the shareholder in the three years previous or any subsequent year, subject to certain restrictions in the case of a corporate shareholder.

Under the Canadian Tax Act, a non-resident of Canada is subject to Canadian tax on taxable capital gains, and may deduct allowable capital losses, realized on a disposition of "taxable Canadian property." Shares of common stock of the Company will constitute taxable Canadian property of a shareholder at a particular time if the shareholder used the shares in carrying on business in Canada, or if at any time in the five years immediately preceding the disposition 25% or more of the issued shares of any class or series in the capital stock of the Company belonged to one or more persons in a group comprising the shareholder and persons with whom the shareholder did not deal at arm's length and in certain other circumstances.

The Convention relieves United States residents from liability for Canadian tax on capital gains derived on a disposition of shares 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 resident in Canada for 120 months during any period of 20 consecutive years preceding, and at any time during the 10 years immediately preceding, the disposition and the shares were owned by him when he or she ceased to be resident in Canada.

United States Federal Income Tax Consequences

The following is a summary of certain anticipated material 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. Accordingly, 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 financial advisor, legal counsel, or accountant regarding the U.S. federal, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

Circular 230 Disclosure

Any tax 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 Internal Revenue Service ("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.

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 resident of the U.S., (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. Accordingly, a non-U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the tax consequences (including the potential application of and operation of any tax treaties) of the acquisition, ownership, and disposition of Common Shares.

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 U.S. Holders: (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, or regulated investment companies or that are 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) 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; (f) U.S. Holders that acquired Common Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (g) 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, (h) U.S. Holders that hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own financial advisor, legal counsel or accountant 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 the U.S. non-income state, local or foreign, tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares. Each U.S. Holder should consult its own financial

advisor, legal counsel, or accountant regarding these and other tax consequences of the acquisition, ownership, and disposition of Common Shares.

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

Distributions on Common Shares

General Taxation of Distributions

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).

Reduced Tax Rates for Certain Dividends

For taxable years beginning after December 31, 2002 and before January 1, 2011, a dividend paid by the Company generally will be taxed at the preferential tax rates applicable to long-term capital gains (generally, a 15% federal tax rate for 2006) if (a) the Company is a "qualified foreign corporation" (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust, and (c) such dividend is paid on Common Shares that have been held by such U.S. Holder for at least 61 days during the 121-day period beginning 60 days before the "ex-dividend date" (i.e., the first date that a purchaser of such Common Shares will not be entitled to receive such dividend).

The Company generally will be a "qualified foreign corporation" under Section 1(h)(11) of the Code (a "QFC") if (a) the Company is incorporated in a possession of the U.S., (b) the Company is eligible for the benefits of the Canada-U.S. Tax Convention, or (c) the Common Shares are readily tradable on an established securities market in the U.S. However, even if the Company satisfies one or more of such requirements, the Company will not be treated as a QFC if the Company is a "passive foreign investment company" (each as defined below) for the taxable year during which the Company pays a dividend or for the preceding taxable year.

As discussed below, the Company believes that it is a "passive foreign investment company" (see more detailed discussion at "Additional Rules that May Apply to U.S. Holders-Passive Foreign Investment Company" below). Accordingly, the Company does not believe that it will be a QFC. If the Company is not a QFC, a dividend paid by the Company to a U.S. Holder, including a U.S. Holder that is an individual, estate, or trust, generally will be taxed at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains). The dividend rules are complex and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the dividend rules.

Distributions Paid in Foreign Currency

The amount of a distribution paid to a U.S. Holder in foreign currency generally will be equal to the U.S. dollar value of such distribution based on the exchange rate applicable on the date of receipt. A U.S. Holder that does not convert foreign currency received as a distribution into U.S. dollars on the date of receipt generally will have a tax basis in such foreign currency equal to the U.S. dollar value of such foreign currency on the date of receipt. Such a U.S. Holder generally will recognize ordinary income or loss on the subsequent sale or other taxable disposition of such foreign currency (including an exchange for U.S. dollars).

Dividends Received Deduction

Dividends paid on the Common Shares generally will not be eligible for the "dividends received deduction." The availability of the dividends received deduction is subject to complex limitations that are beyond the scope of this discussion, and a U.S. Holder that is a corporation should consult its own financial advisor, legal counsel, or accountant regarding the dividends received deduction.

Disposition of Common Shares

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 generally 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 QEF election is made, as described below. 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. For a U.S. Holder that is an individual, estate, or trust, capital losses may be used to offset capital gains and up to U.S.\$3,000 of ordinary income. An unused capital loss of a U.S. Holder that is an individual, estate, or trust generally may be carried forward to subsequent taxable years, until such net capital loss is exhausted. For a U.S. Holder that is a corporation, capital losses may be used to offset capital gains, and an unused capital loss generally may be carried back three years and carried forward five years from the year in which such net capital loss is recognized.

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 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." In addition, this limitation is calculated separately with respect to specific categories of income known as "baskets" (including "passive income," "high withholding tax interest," "financial services income," "shipping income," and certain other categories of income), although after 2006 "basket" limitations will be significantly altered. Dividends paid by the Company generally will constitute "foreign source" income and generally will be classified as "passive income" or, in the case of certain U.S. Holders, "financial services income." In addition, a U.S. Holder that is a corporation and that owns 10% or more of the voting stock of the Company may, subject to complex limitations, be entitled to an "indirect" foreign tax credit under Section 902 of the Code with respect to dividends paid by the Company. 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 financial advisor, legal counsel, or accountant regarding the foreign tax credit rules.

Information Reporting: Backup Withholding Tax

Payments made within the U.S. of dividends 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 financial advisor, legal counsel, or accountant regarding the information reporting and backup withholding tax rules.

Additional Rules that May Apply to U.S. Holders

If the Company is a "controlled foreign corporation" or a "passive foreign investment company" (each as defined below), the preceding sections of this summary may not describe the U.S. federal income tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares.

Controlled Foreign Corporation

The Company generally will be a "controlled foreign corporation" under Section 957 of the Code (a "CFC") if more than 50% of the total voting power or the total value of the outstanding shares of the Company is owned, directly or indirectly, by citizens or residents of the U.S., domestic partnerships, domestic corporations, domestic estates, or domestic trusts (each as defined in Section 7701(a)(30) of the Code), each of which own, directly or indirectly, 10% or more of the total voting power of the outstanding shares of the Company (a "10% Shareholder").

If the Company is a CFC, a 10% Shareholder generally will be subject to current U.S. federal income tax with respect to (a) such 10% Shareholder's pro rata share of the "subpart F income" (as defined in Section 952 of the Code) of the Company and (b) such 10% Shareholder's pro rata share of the earnings of the Company invested in "United States property" (as defined in Section 956 of the Code). In addition, under Section 1248 of the Code, any gain recognized on the sale or other taxable disposition of Common Shares by a U.S. Holder that was a 10% Shareholder at any time during the five-year period ending with such sale or other taxable disposition generally will be treated as a dividend to the extent of the "earnings and profits" of the Company that are attributable to such Common Shares. If the Company is both a CFC and a "passive foreign investment company" (as defined below), and if certain other circumstances are present, the Company generally will be treated as a CFC (and not as a "passive foreign investment company") with respect to any 10% Shareholder.

The Company does not believe that it has previously been, or currently is, a CFC. However, there can be no assurance that the Company will not be a CFC for the current or any future taxable year.

Passive Foreign Investment Company

The Company generally will be a "passive foreign investment company" under Section 1297 of the Code (a "PFIC") if, for a taxable year, (a) 75% or more of the gross income of the Company for such taxable year is passive income or (b) 50% or more of the assets held by the Company either produce passive income or are held for the production of passive income, based on the fair market value of such assets (or on the adjusted tax basis of such assets, if the Company is not publicly traded and either is a "controlled foreign corporation" or makes an election). "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 test and assets 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. In addition, for purposes of the PFIC income test and asset test described above, "passive income" does not include any interest, dividends, rents, or royalties that are received or accrued by the Company from a "related person" (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

The Company believes that it was a PFIC for the taxable year ended March 31, 2005 and that it will be a PFIC for the taxable year ending March 31, 2006. There can be no assurance, however, that the IRS will agree with a determination made by the Company concerning its PFIC status.

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 recognized on the sale or other disposition of Common Shares and (b) any excess distribution paid on the Common Shares. A distribution generally will be an "excess distribution" to the extent that such distribution (together with all other distributions received in the current taxable year) exceeds 125% of the average distributions received during the three preceding taxable years (or during a U.S. Holder's holding period for the Common Shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable 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. Such a Non-Electing U.S. Holder that is not a corporation must treat any such interest paid as "personal interest," which is not deductible. 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) and the ordinary earnings of the Company, which will be taxed as ordinary income to such U.S. Holder. Generally, "net capital gain" is the excess of (a) net long-term capital gain over (b) net short-term capital loss and "ordinary earnings" are the excess of (a) "earnings and profits" over (b) net capital gain. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each taxable year in which the Company is a PFIC, 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. If such U.S. Holder is not a corporation, any such interest paid will be treated as "personal interest," which is not deductible. A U.S. Holder that makes a QEF Election also must report certain information concerning the Company to the IRS.

A U.S. Holder that makes a QEF Election generally also (a) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Holder because of such QEF Election and (b) will adjust such U.S. Holder's tax basis in the Common Shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election. 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.

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election will be treated as "timely" if such QEF Election is made for the first year in the U.S. Holder's holding period for the Common Shares in which the Company was a PFIC. A U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents at the time such U.S. Holder files a U.S. federal income tax return for such first year. However, if the Company was a PFIC in a prior year, then in addition to filing the QEF Election documents, a U.S. Holder must elect to recognize (a) gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if the Common Shares were sold on the qualification date or (b) if the Company was also a CFC, such U.S. Holder's pro rata share of the post-1986 "earnings and profits" of the Company as of the qualification date. The "qualification date" is the first day of the first taxable year in which the Company was a QEF with respect to such U.S. Holder. The election to recognize such gain or "earnings and profits" can only be made if such U.S. Holder's holding period for the Common Shares includes the qualification date. By electing to recognize such gain or "earnings and profits," such U.S. Holder will be deemed to have made a timely QEF Election. In addition, under very limited circumstances, a U.S. Holder may make a retroactive QEF Election if such U.S. Holder failed to file the QEF Election documents in a timely manner.

A QEF Election will apply to the taxable year for which such QEF Election is made and to all subsequent taxable years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent taxable year, the Company ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those taxable years in which the Company is not a PFIC. Accordingly, if the Company becomes a PFIC in another subsequent taxable year, the QEF Election will be effective and the U.S. Holder will be subject to the QEF rules described above during any such subsequent taxable year in which the Company qualifies as a PFIC. In addition, the QEF Election will remain in effect (although it will not be applicable) with respect to a U.S. Holder even after such U.S. Holder disposes of all of such U.S. Holder's direct and indirect interest in the Common Shares. Accordingly, if such U.S. Holder reacquires an interest in the Company, such U.S. Holder will be subject to the QEF rules described above for each taxable year in which the Company is a PFIC.

Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the availability 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 that apply to a QEF, or that the Company will supply U.S. Holders with information that such U.S. Holders require to report under the QEF rules, in event that the Company is a PFIC and a U.S. Holder wishes to make a QEF Election.

Mark-to-Market Election

A U.S. Holder may make a Mark-to-Market Election only if the Common Shares are marketable stock. The Common Shares generally will be "marketable stock" if the Common Shares are regularly traded on (a) a national securities exchange that is registered with the Securities and Exchange Commission, (b) the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, and other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced and (ii) the rules of such foreign exchange ensure active trading of listed stocks.

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 certain dispositions of, and distributions on, the Common Shares.

A U.S. Holder that makes a Mark-to-Market Election will include in 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).

A Mark-to-Market Election applies to the taxable year in which such Mark-to-Market Election is made and to each subsequent taxable year, unless the Common Shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the availability 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.

F. *Dividend and paying agents*

Not Applicable

G. *Statement by experts.*

Not Applicable.

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 in Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Readers may also obtain copies of such materials from the Public Reference Section of the SEC, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. 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.

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 Securities Exchange Act of 1934, as amended. 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 Securities Exchange Act of 1934, as amended 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 Securities Exchange Act of 1934, as amended. Under the Securities Exchange Act of 1934, as amended, as a foreign private issuer, the Company is not required to publish financial statements as frequently or as promptly as United States companies.

Any of the documents referred to above can also be viewed at the offices of the Company's solicitors, Hodgson Russ, 150 King Street West, Suite 2309, Toronto, Ontario M5H 1J9 All of the documents referred to above are in English.

I. *Subsidiary Information.*

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

The Company owns shares of other listed companies. Certain of these shares are listed under current assets on the Company's balance sheet as at March 31, 2006 as "Marketable Securities" at an amount of \$71,392. However, the quote market value of these shares at March 31, 2006 was \$217,512. The Company also owns 4,000,000 common shares of Northern Lion Gold Corp. This long-term investment has a carrying value of \$1,400,000 as at March 31, 2006, with the quoted market value of such shares at March 31, 2006 being \$2,280,000. The shares are subject to a hold period expiring February 27, 2007 and other selling restrictions subsequent to that date. Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flows of the Company due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market or price risks.

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

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

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

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

There are none.

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

Not Applicable.

Item 15. Controls and Procedures.

(a) Evaluation of 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 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this annual report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company required to be included in our reports filed or submitted under the Exchange Act.

(b) 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 16. [Reserved]

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 AMEX.

Item 16B. Code of Ethics.

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

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 2003 Code and 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 Commissions as mandated by the Sarbanes-Oxley Act of 2002, and the requirements of the Toronto Stock Exchange;

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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.

There were no waivers to the Ethics and Conflicts of Interest Policy during calendar 2006.

Item 16C. Principal Accountant Fees and Services.

A. *Audit Fees*

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

Aggregate audit fees to be billed in fiscal 2006 by KPMG are \$50,000, and the Company was billed \$52,500 for the fiscal year 2005.

B. *Audit-Related Fees*

"Audit-Related Fees" are fees that are or would be charged by KPMG for presentations or training on accounting or regulatory pronouncements, due diligence services related to accounting and tax matters in connection with potential acquisitions/dispositions, advice and documentation assistance with respect to internal controls over financial reporting and disclosure controls and procedures of the Company, and if applicable, audits of financial statements of a company's employee benefit plan. There were no "Audit Related Fees" charged by KPMG during the fiscal periods ended March 31, 2006 or March 31, 2005.

C. *Tax Fees*

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

Aggregate tax fees billed in fiscal 2006 by KPMG were \$nil and \$16,682 for the fiscal year 2005 pertaining to tax compliance and tax planning pertaining to the wind-up of Mountain Glen. These services were approved by the Audit Committee.

D.

All Other Fees

There were no other fees charged by KPMG during the fiscal periods ended March 31, 2006 and 2005.

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 March 31, 2006, have been 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 other than an exchange of the Company's remaining 30% interest in the Haveri property for 4,000,000 of Northern Lion Gold Corp.'s common shares (see Item 4D- Property, plants and equipment - Other Properties, above) and the exchange of the Company's Baffin Island properties for 325,000 of Patrician Diamond Inc.'s common shares.

PART III

Item 17. Financial Statements.

The Company's consolidated financial statements are stated in Canadian dollars (CDN\$) and are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Material measurement differences between GAAP in Canada and GAAP in the United States applicable to the Company, are described in Note 10 to the Consolidated Financial Statements.

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

For audited financial statements for Fiscal 2006, Fiscal 2005 and Fiscal 2004, please see Item 19 below.

Item 18. Financial Statements.

Not Applicable.

Item 19

Exhibits

Financial Statements

The Consolidated Financial Statements of the Company and exhibits listed below 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 and the Canadian filing does not include the Consolidated Financial Statements and exhibits listed below. Canadian investors should refer to the audited Financial Statements of the Company for the years ended March 31, 2006 and 2005 filed with Canadian Securities Regulators on SEDAR under "Audited Annual Financial Statements - English" and incorporated herein by reference.

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

Consolidated Financial Statements of the Company:

- Report of Independent Registered Public Accounting Firm.
- Consolidated Balance Sheets as of March 31, 2006 and 2005.
- Consolidated Statements of Operations and Deficit for the years ended March 31, 2006, 2005 and 2004.
- Consolidated Statements of Cash Flows for the years ended March 31, 2006, 2005 and 2004.
- Notes to the Consolidated Financial Statements.

Consolidated Financial Statements
(Expressed in Canadian dollars)

Mountain Province Diamonds Inc.

Years ended March 31, 2006, 2005 and 2004

KPMG LLP Telephone (604) 691-3000
Chartered Accountants Fax (604) 691-3031
PO Box 10426 777 Dunsmuir Street Internet www.kpmg.ca
Vancouver BC V7Y 1K3
Canada

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders
Mountain Province Diamonds Inc.

We have audited the accompanying consolidated balance sheets of Mountain Province Diamonds Inc. as at March 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended March 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2006 in accordance with Canadian generally accepted accounting principles.

As discussed in note 2(i) to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation in 2005.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such measurement differences is presented in note 10 to the consolidated financial statements.

KPMG LLP (signed)
Chartered Accountants

Vancouver, Canada
May 19, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

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MOUNTAIN PROVINCE DIAMONDS INC.

Consolidated Balance Sheets

(Expressed in Canadian dollars)

March 31, 2006 and 2005

| | 2006 | 2005 |
|---|---------------|---------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 845,452 | \$ 1,001,104 |
| Marketable securities (Note 3) | 71,392 | 71,392 |
| Accounts receivable | 66,637 | 26,324 |
| Advances and prepaid expenses | 6,052 | 36,879 |
| | 989,533 | 1,135,699 |
| Long-term investment (Note 4) | 1,400,000 | 2,480,000 |
| Mineral properties (Note 6) | 1,552,553 | 1,552,553 |
| Deferred exploration costs (Note 6) | 30,929,049 | 30,865,670 |
| Equipment (Note 5) | 3,153 | 4,235 |
| Total assets | \$ 34,874,288 | \$ 36,038,157 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 8) | \$ 181,266 | \$ 94,976 |
| Shareholders' equity: | | |
| Share capital (Note 7(b)) | 58,253,663 | 57,607,786 |
| Contributed surplus (Note 7(e)) | 561,777 | 257,925 |
| Deficit | (24,122,418) | (21,922,530) |
| Total shareholders' equity | 34,693,022 | 35,943,181 |
| Total liabilities and shareholders' equity | \$ 34,874,288 | \$ 36,038,157 |

Nature of operations (Note 1)

Subsequent event (Note 7(f))

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

_____ "Jonathan Comerford" _____ Director

Approved on behalf of the Board:

_____ "Patrick Evans" _____ Director

MOUNTAIN PROVINCE DIAMONDS INC.

Consolidated Statements of Operations and Deficit

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

| | 2006 | 2005 | 2004 |
|--|-----------------|-----------------|-----------------|
| Expenses: | | | |
| Amortization | \$ 1,082 | \$ 2,136 | \$ 2,853 |
| Consulting fees (Note 8) | 309,217 | 141,586 | 182,846 |
| Directors' fees and honourarium | 37,500 | 2,700 | 33,350 |
| Interest and bank charges | 1,231 | 983 | 1,137 |
| Office and miscellaneous | 43,647 | 89,941 | 78,619 |
| Professional fees (Note 8) | 166,150 | 235,680 | 307,441 |
| Promotion and investor relations | 108,184 | 30,503 | 94,803 |
| Rent | 10,396 | 18,466 | 23,600 |
| Salaries and benefits | - | - | 78,805 |
| Severance and contract termination | - | - | 368,668 |
| Stock-based compensation (Note 7(c)) | 314,879 | 189,400 | - |
| Transfer agent and regulatory fees | 99,794 | 114,459 | 37,890 |
| Travel | 39,981 | 22,648 | 21,479 |
| | 1,132,061 | 848,502 | 1,231,491 |
| Other earnings (expenses): | | | |
| Gain on sale of mineral properties | - | 4,226,634 | - |
| Write-down of long-term investments (Note 4) | (1,080,000) | (1,860,000) | - |
| Interest | 12,173 | 13,112 | 12,127 |
| Loss on disposal of equipment | - | - | (3,972) |
| Write-down of mineral properties and deferred exploration | - | - | (589,669) |
| | (1,067,827) | 2,379,746 | (581,514) |
| Net (loss) earnings for the year | (2,199,888) | 1,531,244 | (1,813,005) |
| Deficit, beginning of year | (21,922,530) | (23,378,874) | (21,565,869) |
| Adjustment on adoption of new accounting standard for stock based compensation (Note 2(i)) | - | (74,900) | - |
| Deficit, end of year | \$ (24,122,418) | \$ (21,922,530) | \$ (23,378,874) |
| Basic and diluted (loss) earnings per share | \$ (0.04) | \$ 0.03 | \$ (0.04) |
| Weighted average number of shares outstanding | 52,783,833 | 51,781,905 | 50,759,430 |

See accompanying notes to consolidated financial statements

MOUNTAIN PROVINCE DIAMONDS INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

| | 2006 | 2005 | 2004 |
|---|----------------|--------------|----------------|
| Cash provided by (used in): | | | |
| Cash flows provided by (used in) operating activities: | | | |
| Net (loss) earnings for the year | \$ (2,199,888) | \$ 1,531,244 | \$ (1,813,005) |
| Items not involving cash: | | | |
| Amortization | 1,082 | 2,136 | 2,853 |
| Stock-based compensation expense | 314,879 | 189,400 | 156,000 |
| Gain on sale of mineral properties | - | (4,226,634) | - |
| Write-down of long-term investments | 1,080,000 | 1,860,000 | - |
| Loss on disposal of equipment | - | - | 3,972 |
| Write-down of mineral properties and deferred exploration | - | - | 589,669 |
| Changes in non-cash operating working capital | | | |
| Accounts receivable | (40,313) | (7,891) | 6,508 |
| Advances and prepaid expenses | 30,827 | (28,499) | 1,816 |
| Accounts payable and accrued liabilities | 86,290 | (177,770) | 32,651 |
| Due to related party | - | - | (50) |
| | (727,123) | (858,014) | (1,019,586) |
| Cash flows provided by (used in) investing activities: | | | |
| Mineral properties | (63,379) | (37,106) | - |
| Proceeds on sale of equipment | - | - | 4,002 |
| | (63,379) | (37,106) | 4,002 |
| Cash flows provided by financing activities: | | | |
| Issuance of shares, net of share issue costs | 634,850 | 981,730 | 720,002 |
| Increase (decrease) in cash and cash equivalents | | | |
| | (155,652) | 86,610 | (295,582) |
| Cash and cash equivalents, beginning of year | 1,001,104 | 914,494 | 1,210,076 |
| Cash and cash equivalents, end of year | \$ 845,452 | \$ 1,001,104 | \$ 914,494 |
| Supplementary information: | | | |
| Income taxes paid | \$ - | \$ - | \$ 8,307 |
| Non-cash transactions | | | |
| Shares issued in exchange for sale of Haveri property (Note 6(b)) | - | 4,340,000 | - |
| Shares issued in exchange for sale of Baffin Island claim (Note 6(c)) | - | 39,000 | - |

| | | | |
|---|---|---|---------|
| Shares issued pursuant to consulting agreement (Note 8) | - | - | 156,000 |
|---|---|---|---------|

See accompanying notes to consolidated financial statements

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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

1. Nature of operations:

During the year ended March 31, 2006, the Company amended its articles and continued incorporation under the Ontario Business Corporation Act, transferring from the Company Act (British Columbia).

The Company is in the process of exploring its mineral properties primarily in conjunction with third parties (Note 6) and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The underlying value and recoverability of the amounts shown for mineral properties and deferred exploration costs is dependent upon the ability of the Company and/or its mineral property partners to complete exploration and development and discover economically recoverable reserves and upon future profitable production or proceeds from disposition of the Company's mineral properties. Failure to discover economically recoverable reserves will require the Company to write-off costs capitalized to date.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. A reconciliation of material measurement differences between Canadian generally accepted accounting principles and United States generally accepted accounting principles and practices prescribed by the Securities and Exchange Commission, is included in Note 10.

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany amounts and transactions have been eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid short-term investments that are readily convertible to known amounts of cash and generally have maturities of three months or less when acquired.

(c) Marketable securities:

Marketable securities are carried at the lower of cost and quoted fair market value.

(d) Long-term investments:

The long-term investment has arisen on the sale of mineral property interests in exchange for shares of the purchaser and is accounted for by the cost method. Earnings from long-term investment are recognized only to the extent received. The investment is written down when there has been a loss in value that is other than a temporary decline.

MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

2. Significant accounting policies (continued):**(e) Mineral properties and deferred exploration costs:**

The Company accounts for its mineral properties whereby all direct costs related to the acquisition, exploration and development of these properties are capitalized. All sales and option proceeds received are first credited against the costs of the related property, with any excess credited to earnings. Once commercial production has commenced, the net costs of the applicable property will be charged to operations using the unit-of-production method based on estimated recoverable reserves. On an ongoing basis, the Company evaluates each property based on results to date to determine the nature of exploration work that is warranted in the future. If there is little prospect of future work on a property being carried out, the deferred costs related to that property are written down to the estimated amount recoverable.

The amounts reported as mineral properties and deferred exploration costs represent unamortized costs to date, less write-downs, and do not necessarily reflect present or future values.

All general and administrative expenses are expensed as incurred.

(f) Equipment:

Equipment is initially recorded at cost and amortized over their estimated useful lives on the declining balance basis at the following annual rates:

| Asset | Rate |
|-------------------------|------|
| Furniture and equipment | 20% |
| Computers | 30% |

(g) Impairment of long-lived assets:

The Company assesses the impairment of long-lived assets, which consist of mineral property interests (including deferred exploration costs) and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of a long-lived asset is then determined by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

2. Significant accounting policies (continued):

(h) Asset retirement obligations:

The fair value of a liability for an asset retirement obligation, such as site reclamation costs, is recognized in the period in which it is incurred if a reasonable estimate of the fair value of the costs to be incurred can be made. The Company is required to record the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increase the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs will be amortized to expense over the life of the related assets using the unit-of production method. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs).

As of March 31, 2006 and 2005, the Company has determined that it does not have material obligations for asset retirement obligations.

(i) Stock-based compensation:

The Company expenses the fair value of all stock options, calculated using the Black-Scholes option pricing model, over the vesting period commencing April 1, 2004.

For the period from April 1, 2002 to March 31, 2004, the Company applied the fair value method of accounting for stock options granted to consultants and the settlement method for stock options granted to employees and directors. Under the settlement method, no stock-based compensation expense was recognized for options granted and proceeds received on the issuance of share capital pursuant to the exercise of stock options is credited to share capital. The pro forma effect of applying the fair value method for options granted to employees and directors to loss and loss per share for the years ended March 31, 2004 is disclosed in Note 7(c) to these consolidated financial statements. Prior to April 1, 2002, the Company applied the settlement method to all stock options granted.

As permitted, effective April 1, 2004, the Company has adopted the fair value based method for employee and director stock options granted on or after April 1, 2002, on a retroactive basis without restatement of prior periods.

The retroactive adoption of the changes discussed above resulted in an increase to opening deficit as at April 1, 2004 of \$74,900 with respect to employee and director stock options granted in 2004 and 2003, an increase to the contributed surplus as at April 1, 2004 of \$54,586 and an increase to share capital as at April 1, 2004 of \$20,314 with respect to employee and director stock options granted and exercised in 2004 and 2003.

Direct awards of stock are expensed based on the market price of the shares at the time of the granting of the award.

MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

2. Significant accounting policies (continued):

(j) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(k) Earnings (loss) per share:

Basic earnings (loss) per share is calculated by dividing the earnings (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. For all periods presented, earnings (loss) available to the common shareholders equals the reported earnings or loss. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential dilutive common shares had been issued. The treasury stock method assumes that the proceeds received on exercise of stock options is used to repurchase common shares at the average market value for the period.

(l) Foreign currency translation:

Monetary assets and liabilities denominated in a currency other than the Canadian dollar are translated at rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average rates for the months in which such items are recognized during the year. Exchange gains and losses arising from the translation are included in the statement of operations.

(m) Financial instruments:

The fair values of the Company's cash and cash equivalents, accounts receivable, advances and prepaid expenses, accounts payable and accrued liabilities approximate their carrying values because of the immediate or short term to maturity of these financial instruments. The fair value of marketable securities and long-term investments are disclosed in Notes 3 and 4, respectively.

(n) Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral properties, deferred exploration, and long-term investment, as well as

the assumptions used in determining the fair value of stock-based compensation. Actual results could differ from these estimates.

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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

2. Significant accounting policies (continued):**(o) Comparative figures:**

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

3. Marketable securities:

The quoted market value of marketable securities at March 31, 2006 was \$217,512 (2005 - \$134,772).

4. Long-term investment:

The long-term investment consists of 4,000,000 common shares of Northern Lion Gold Corp. ("Northern Lion"), acquired upon disposal of the Company's remaining interest in the Haveri property (Note 6(b)). The common shares are subject to a hold period expiring February 24, 2007, following which the Company is contractually obligated to sell not fewer than 250,000 common shares at a time and must first offer Northern Lion the right to place the number of shares that the Company wishes to sell. The Company has also agreed to provide Northern Lion's management a proxy for the purpose of voting the common shares for a period of three years. On acquisition, the Company recorded a gain on the sale in the amount of \$4,187,634. During the year ended March 31, 2006 and 2005, the Company recorded \$1,080,000 and \$1,860,000 respectively, as other than a temporary write-down of investments.

The quoted market value of the long-term investments at March 31, 2006 was \$2,280,000 (2005 - \$2,480,000).

5. Equipment:

2006:

| | Cost | Accumulated Amortization | Net Book Value |
|-----------|-------------|-------------------------------------|---------------------------|
| Furniture | \$ 11,088 | \$ (9,481) | \$ 1,607 |
| Equipment | 4,065 | (4,065) | - |
| Computers | 14,584 | (13,038) | 1,546 |
| | \$ 29,737 | \$ (26,584) | \$ 3,153 |

2005:

| | Cost | Accumulated Amortization | Net Book Value |
|-----------|-------------|-------------------------------------|---------------------------|
| Furniture | \$ 11,088 | \$ (9,079) | \$ 2,009 |
| Equipment | 4,065 | (4,048) | 17 |
| Computers | 14,584 | (12,375) | 2,209 |
| | \$ 29,737 | \$ (25,502) | \$ 4,235 |

MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

6. Mineral properties and deferred exploration:

Acquisition costs:

| | 2006 | 2005 |
|--------------------|--------------|--------------|
| Gahcho Kue Project | \$ 1,552,553 | \$ 1,552,553 |

Deferred exploration:

| | Gahcho Kue Project | Baffin Island Project | Total |
|--|-----------------------|--------------------------|---------------|
| Balance, March 31, 2003 | \$ 30,861,544 | \$ 559,949 | \$ 31,421,493 |
| Write-down of deferred exploration costs | - | (559,949) | (559,949) |
| Balance, March 31, 2004 | 30,861,544 | - | 30,861,544 |
| Exploration expenditures: | | | |
| Consulting and other professional services | 4,126 | - | 4,126 |
| Balance, March 31, 2005 | 30,865,670 | - | 30,865,670 |
| Geophysical | 3,220 | - | 3,220 |
| Due Diligence | 60,159 | - | 60,159 |
| Balance, March 31, 2006 | \$ 30,929,049 | \$ - | \$ 30,929,049 |

(a) Gahcho Kue Project:

The Company currently holds a 44.1% interest in the Gahcho Kue project located in the District of Mackenzie, Northwest Territories, Canada. Other interests are held by De Beers Canada Exploration Inc. ("De Beers Canada") (51%) and Camphor Ventures Inc. ("Camphor") (4.9%). De Beers Canada has been granted the right to earn up to a 60% interest in the Gahcho Kue project.

De Beers Canada has agreed to carry all costs incurred and has committed to certain minimum expenditures and activities per year. Decisions are to be made jointly (via a management committee consisting of two members each from De Beers Canada and the Company) as to the further progress of the project, and specifically the timing of possible full feasibility study. Once a desktop study shows that an internal rate of return of 15% can be achieved, De Beers Canada is to proceed with a bankable feasibility study. If they do not proceed with the feasibility study, De Beers Canada's interest will be diluted down to 30%.

Upon completion of a bankable feasibility study, De Beers Canada's interest in the claims shall increase to 55% and upon development, construction and commencement of production of a commercial mine, De Beers Canada's interest shall increase to 60%.

MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

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6. Mineral properties and deferred exploration (continued):

(a) Gahcho Kue Project (continued):

All costs paid with respect to the expenses incurred by the venturers shall be repaid first to De Beers Canada for all exploration and development costs incurred by them outside of the Kennady Lake area since March 8, 2000 out of 100% of annual available cash flow (i.e. cash flow after provision for ongoing operating and non-operating costs including third party debt repayments) from any mine constructed on the property with interest at a rate equal to LIBOR plus 5% compounded annually; then to all venturers for all other exploration, development and mine construction costs out of 90% of annual available cash flow from any mine constructed on the property with interest at a rate equal to LIBOR plus 4% compounded annually; and the remaining 10% of such available cash flow shall be distributed to the participants in proportion to their respective participating interests.

On November 26, 2003, the Board of Directors of De Beers Canada approved the commencement of a pre-feasibility study on the Gahcho Kue Project. The estimated \$25 million cost was borne entirely by De Beers Canada. The in-depth pre-feasibility project was completed in mid-2005 showing that an internal rate of return of 15% can be achieved and the project is proceeding with permitting and advanced exploration.

(b) Haveri Project:

The Company had a 100% interest in the Haveri Project, a mineral property located 175 kilometres north of Helsinki, Finland. On October 10, 2002, Northern Lion was granted an option to acquire a 70% undivided interest in the Haveri property, in exchange for expending a total of \$1,650,000 in exploration and development expenditures by October 10, 2005. Northern Lion completed the necessary expenditures during the year ended March 31, 2005 and exercised its option to acquire a 70% interest in the Haveri property.

During the year ended March 31, 2005, the Company sold its remaining 30% interest in the Haveri property in exchange for 4,000,000 common shares of Northern Lion (Note 4).

(c) Baffin Island Project:

Pursuant to an agreement dated July 13, 1999, the Company was granted an option to acquire a 50% interest in four mineral claims located in the Northwest Territories and Nunavut Territory. In order to exercise the option and earn the 50% interest in the property, the Company had to incur expenditures on or in respect of the property of not less than \$300,000 on or before July 13, 2000. The Company incurred the minimum required expenditure and exercised its option. Subsequent to entering into the agreement, the Company staked another claim that was subject to the option agreement.

During the year ended March 31, 2004, the property and related deferred exploration was written down to a nil value as the Company would not be proceeding with further exploration and would not be renewing the claims.

MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

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Years ended March 31, 2006, 2005, and 2004

6. Mineral properties and deferred exploration (continued):**(c) Baffin Island Project: (continued)**

On September 27, 2004, the Company sold its interest in the one remaining Baffin Island mining claim to Patrician Diamonds Inc. ("Patrician") in exchange for 325,000 common shares of Patrician, the reservation of a 1% Net Smelter Royalty and the agreement to honour a 1% Net Smelter Royalty in favour of two stakeholders, which the Company has the unrestricted right and option to acquire upon payment of \$1,000,000. The Company recorded a gain on the sale in the amount of \$39,000, during the year ended March 31, 2005.

7. Share capital:**(a) Authorized**

Unlimited number of common shares without par value

(b) Issued and fully paid:

| | Number of Shares | Amount |
|---|-----------------------------|---------------|
| Balance, March 31, 2003 | 50,582,071 | \$ 55,719,260 |
| Issued pursuant to consulting agreement (Note 8) | 60,000 | 156,000 |
| Exercise of stock options | 560,040 | 720,002 |
| Balance, March 31, 2004 | 51,202,111 | 56,595,262 |
| Adjustment on adoption of new accounting standard for stock-based compensation (Note 2(i)) | - | 20,314 |
| Exercise of stock options | 202,858 | 282,321 |
| Exercise of warrants | 1,205,878 | 699,409 |
| Value on stock options exercised | - | 10,480 |
| Balance, March 31, 2005 | 52,610,847 | 57,607,786 |
| Exercise of stock options | 465,000 | 634,850 |
| Value on stock options exercised | - | 11,027 |
| Balance, March 31, 2006 | 53,075,847 | \$ 58,253,663 |

On March 30, 2004, the Company cancelled 16,015,996 shares previously owned by its wholly-owned subsidiary Mountain Glen Mining Inc. ("Mountain Glen") that were received by the Company on the wind up of Mountain Glen. The cancelled shares have been excluded from the above table for all periods presented.

MOUNTAIN PROVINCE DIAMONDS INC.

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(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

7. Share capital (continued):**(c) Stock options:**

The Company, through its Board of Directors and shareholders, adopted a November 26, 1998 Stock Option Plan (the "Plan") which was amended on February 1, 1999.

The following presents the continuity of stock options outstanding:

| | Number of Options | | Weighted Average Exercise Price |
|-------------------------|----------------------|----|---------------------------------------|
| Balance, March 31, 2003 | 2,399,100 | \$ | 1.46 |
| Granted (i) | 12,858 | \$ | 1.40 |
| Exercised | (560,040) | \$ | 1.29 |
| Expired | (324,060) | \$ | 2.19 |
| Cancelled | (200,000) | \$ | 1.32 |
| Balance, March 31, 2004 | 1,327,858 | \$ | 1.37 |
| Granted (ii) | 200,000 | \$ | 1.96 |
| Exercised | (202,858) | \$ | 1.39 |
| Balance, March 31, 2005 | 1,325,000 | \$ | 1.48 |
| Granted (iii) | 200,000 | \$ | 3.57 |
| Exercised | (465,000) | \$ | 1.37 |
| Balance, March 31, 2006 | 1,060,000 | \$ | 1.90 |

The following are the stock options outstanding and exercisable at March 31, 2006.

| Expiry Date | Black Scholes Value | Number of Options | Weighted Average Remaining Life | Exercise Price |
|-------------------|---------------------------|----------------------|---------------------------------------|-------------------|
| May 11, 2006 | \$ - | 215,000 | 0.11 years | \$ 1.25 |
| May 11, 2006 | - | 340,000 | 0.11 years | \$ 1.50 |
| December 21, 2006 | - | 50,000 | 0.73 years | \$ 0.67 |
| October 21, 2007 | 33,079 | 30,000 | 1.56 years | \$ 1.36 |
| March 21, 2008 | 24,419 | 25,000 | 1.98 years | \$ 2.06 |
| October 1, 2009 | 189,400 | 200,000 | 3.51 years | \$ 1.96 |
| November 1, 2010 | 127,571 | 100,000 | 4.59 years | \$ 2.63 |
| January 30, 2011 | 187,308 | 100,000 | 4.84 years | \$ 4.50 |

\$ 561,777 1,060,000 1.74 years \$ 1.90

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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

7. Share capital (continued):**(c) Stock options (continued):**

(i) During the year ended March 31, 2004, the Company granted 12,858 options to an employee at an exercise price of \$1.40 per share. The Black-Scholes value of the options granted was \$0.38 per option or \$4,943 in aggregate. In accordance with the Company's accounting policy (Note 2(i)), no compensation expense was recorded for share options granted to directors and employees during the year ended March 31, 2004.

(ii) During the year ended March 31, 2005, the Company granted 200,000 options to directors of the Company at an exercise price of \$1.96 per share, vesting immediately and expire on October 1, 2009. The Black-Scholes value of the options granted was \$0.95 per option or \$189,400 in aggregate.

(iii) During the year ended March 31, 2006, the Company granted 200,000 options to an officer of the Company of which 100,000 are at an exercise price of \$2.63 and 100,000 are at an exercise price of \$4.50 per share. These options vested 50% immediately and 50% vest 1 year after grant. The Black-Scholes value of the options granted was \$1.80 per option or \$180,000 in the aggregate and \$3.211 or \$321,100 in the aggregate, respectively. These options expire November 1, 2010 and January 30, 2011 respectively. During the year ended March 31, 2006, the Company recorded compensation expense of \$127,571 for the first grant and \$187,308 for the second grant.

The table below presents the net loss and net loss per share if the Black-Scholes fair value method of accounting was used for stock options granted to employees and directors for the year ended March 31, 2004. The pro forma adjustments presented below pertain to the new options granted to employees since adoption of the stock-based compensation standards on April 1, 2002. As discussed in Note 2(i), the pro forma adjustment amounts below were recorded as a cumulative adjustment to deficit as at April 1, 2004.

| | 2006 | 2005 | 2004 |
|--|----------------|--------------|----------------|
| Net loss as reported | \$ (2,199,888) | \$ 1,531,244 | \$ (1,813,005) |
| Pro forma adjustment | - | - | (4,943) |
| Pro forma net loss | \$ (2,199,888) | \$ 1,531,244 | \$ (1,817,948) |
| Pro forma basic and diluted loss per share | \$ (0.04) | \$ 0.03 | \$ (0.04) |

The fair value of the options granted has been estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions

| | 2006 | 2005 | 2004 |
|----------------|-------------|-------------|-------------|
| Dividend yield | 0% | 0% | 0% |

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| | | | |
|-------------------------|------------|---------|---------------|
| Expected volatility | 84%-89.78% | 50% | 93% |
| Risk-free interest rate | 3.9% | 4.1% | 3.0% |
| Expected lives | 5 years | 5 years | 5 to 8 months |

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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

7. Share capital (continued):**(d) Warrants:**

The following presents the continuity of share purchase warrants outstanding:

| | Number of Warrants | | Weighted Average Exercise Price |
|--|-------------------------------|----|--|
| Balance, March 31, 2003 and March 31, 2004 | 1,205,878 | \$ | 0.58 |
| Exercised | (1,205,878) | \$ | 0.58 |
| Balance, March 31, 2005 and March 31, 2006 | - | \$ | - |

(e) Contributed surplus:

| | Amount |
|---|---------------|
| Balance, March 31, 2003 and March 31, 2004 | \$ 24,419 |
| Adjustment on adoption of new accounting standard for stock-based compensation (Note 2(i)) | 74,900 |
| Less: value of options exercised prior to adoption of new standard and value transferred to share capital | (20,314) |
| Grant of stock options | 189,400 |
| Value on exercise of stock options transferred to share capital | (10,480) |
| Balance, March 31, 2005 | 257,925 |
| Issuance of stock options | 314,879 |
| Value on exercise of stock options transferred to share capital | (11,027) |
| Balance, March 31, 2006 | \$ 561,777 |

(f) Subsequent event:

Subsequent to March 31, 2006, 555,000 options were exercised for proceeds of \$776,250.

8. Related party transactions:

As at March 31, 2006, \$40,500 (2005 - \$6,210; 2004 - \$3,000) was owed to directors or companies controlled by directors of the Company, primarily for unpaid directors' fees. Amounts are payable on demand, unsecured and non-interest bearing.

During the year ended March 31, 2006, the Company paid \$24,000 (2005 - \$40,050; 2004 - \$197,896) for consulting, professional, management, property evaluation and administration services to directors and to companies in which directors have an interest.

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MOUNTAIN PROVINCE DIAMONDS INC.

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(Expressed in Canadian dollars)

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8. Related party transactions (continued):

During the year ended March 31, 2004, the Company entered into a new consulting agreement with the former President of the Company. As compensation for terminating his old consulting agreement, the director received US\$120,000 paid in 12 equal monthly instalments commencing January 1, 2004. As at March 31, 2004, the remaining US\$90,000 was included in accounts payable and accrued liabilities. No amounts are unpaid at March 31, 2005. As further compensation, 60,000 shares were issued to the President on February 20, 2004 with 55,000 shares held in escrow to be released in 11 equal monthly portions commencing February 27, 2004. The value of the shares based on quoted market prices on the date of issuance, was \$156,000 and this amount along with the US\$120,000 cash payment, was charged to contract termination expense during the year ended March 31, 2004. During the year ended March 31, 2006, the former President was paid \$102,127 (2005 - \$131,905) (US\$7,500 per month plus benefits) pursuant to a former consulting agreement.

During the year ended March 31, 2006, the Company entered into a consulting agreement with the new President and Director of the Company. Compensation per the agreement is \$12,500 per month. During the year ended March 31, 2006, the new President was paid \$56,074 pursuant to this consulting agreement.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Income taxes

Income tax recovery differs from the amounts computed by applying the combined federal and provincial tax rates of 36.1% for the years ended March 31, 2006 and 2004, respectively, primarily as a result of tax benefits which have not been recognized.

Income tax expense differs from the amounts computed by applying the combined federal and provincial tax rate of 36.1% to pre-tax income for the year ended March 31, 2005 primarily as a result of income which has been offset by unrecognized mineral property tax pools.

The tax effect of the significant components within the Company's future tax asset (liability) are as follows:

| | 2006 | 2005 | 2004 |
|---|------------------|------------------|------------------|
| Mineral properties and deferred exploration | \$ 682,300 | \$ 579,000 | \$ 1,756,000 |
| Loss carry forwards | 1,962,200 | 2,168,000 | 2,095,000 |
| Equipment | 155,300 | 172,000 | 172,000 |
| Long-term investment | 503,100 | 308,200 | - |
| Other | - | 6,000 | 3,000 |
| | 3,302,900 | 3,233,200 | 4,026,000 |
| Valuation allowance | (3,302,900) | (3,233,200) | (4,026,000) |



| | | | | | | |
|---|----|---|----|---|----|---|
| Net future income tax asset (liability) | \$ | - | \$ | - | \$ | - |
|---|----|---|----|---|----|---|

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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

9. Income taxes (continued)

At March 31, 2006, the Company has available losses for income tax purposes totaling approximately \$6.0 million, expiring at various times from 2006 to 2016. Of the available losses, \$1.7 million are subject to acquisition of control rules which may restrict their future deductibility. The Company also has available resource tax pools of approximately \$34.6 million, which may be carried forward and utilized to reduce future taxable income. Included in the \$34.6 million of tax pools is \$24.9 million that is successored, which can only be utilized against taxable income from specific mineral properties.

10. Reconciliation to United States generally accepted accounting principles ("US GAAP"):

As disclosed in Note 2, these financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). A description and reconciliation of material measurement differences to US GAAP and practices prescribed by the US Securities and Exchange Commission ("SEC") follows:

(a) Mineral properties and deferred exploration costs:

US GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. SEC staff have indicated that their interpretation of US GAAP requires mineral property exploration and land use costs to be expensed as incurred until commercially minable deposits are determined to exist within a particular property as cash flows cannot be reasonably estimated prior to such determination. Accordingly, for all periods presented, the Company has expensed all mineral property exploration and land use costs for US GAAP purposes. The Company also expenses mineral property acquisition costs for US GAAP purposes.

For Canadian GAAP, cash flows relating to mineral property costs are reported as investing activities. For US GAAP, these costs would be characterized as operating activities.

(b) Stock-based compensation

The Financial Accounting Standards Board in the U.S. has issued Statement of Financial Accounting Standards No.123, "Accounting for Stock-Based Compensation" ("FAS 123"). FAS 123 encourages entities to adopt a fair value methodology of accounting for employee stock-based compensation.

As permitted by FAS 123, the Company has elected to continue measuring compensation costs using the intrinsic value method of accounting for stock-based compensation as prescribed by APB Opinion No. 25. Under the intrinsic value method, compensation is the excess, if any, of the quoted market value of the stock at the date of the granting of options to employees and directors to purchase stock over the amount an optionee must pay to acquire the stock at that date. This excess is recognized by a charge to operations over the vesting period. As the exercise price of options granted by the Company to employees and directors approximates, or is greater than, the market value at the grant date, the Company has determined that the adoption of this accounting policy for stock options granted to

employees and directors results in no material expense for US GAAP purposes.
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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

**10. Reconciliation to United States generally accepted accounting principles ("US GAAP")
(Continued):**

(b) Stock-based compensation (continued):

Under FAS 123, stock options granted to non-employees for services rendered to the Company are required to be accounted for as compensation cost and charged to operations as the services are performed and the options earned. The compensation cost is to be measured based on the fair value of the stock options granted. This method is similar to the Canadian standard adopted April 1, 2002, and the application of this accounting policy for US GAAP purposes does not result in a measurement difference for grants made in the years ended March 31, 2003 and 2004. The stock-based compensation expense in respect of stock options granted to non-employees, under US GAAP, based upon the fair value of the options granted, determined using an option pricing model, would cumulatively be \$1,704,000 from the date of adoption of FAS 123 to March 31, 2002.

Effective April 1, 2004, the Company adopted the revised provisions of the CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". As a result, the Company now expenses the fair value of all stock options, calculated by using the Black-Scholes option pricing model commencing April 1, 2004.

For Canadian GAAP purposes, as permitted, the Company has adopted the fair value based method to all employee and director stock options granted on or after April 1, 2002, without restatement of prior periods. An adjustment has been made to contributed surplus and deficit as at April 1, 2004 in the amount of \$74,900 to reflect the cumulative effect of the change in accounting policy, consistent with that permitted under the retroactive restatement method. An amount of \$20,314 has also been transferred from contributed surplus to share capital as at April 1, 2004 in respect of employee and director options exercised during the years ended March 31, 2004 and 2003. In addition, the Company has booked stock-based compensation during the year ended March 31, 2006 of \$314,879 (2005 - \$189,400) for employee and director stock options. Under US GAAP, these adjustments and stock-based compensation amounts would not be recorded.

(c) Unrealized holding gains and losses on marketable securities and long-term investments:

Statement of Financial Accounting Standards Board No. 115, "Accounting for Investments in Debt and Equity Securities" ("FAS 115") requires that the Company's marketable securities be classified as available-for-sale securities and that they be recorded at market value with unrealized gains or losses recorded outside of income as a component of shareholders' equity unless a decline in value is considered to be other than temporary. The Company's marketable securities are presented at the lower of cost or market value under Canadian GAAP. At March 31, 2006, there is a cumulative unrealized gain of \$146,120 (2005 - \$63,380; 2004 - \$49,930) between the carrying value and fair value of marketable securities which has been recorded through comprehensive income for US GAAP purposes in the amounts of \$82,740, \$13,450 and \$(17,856) for each of the years ended March 31, 2006, 2005 and 2004, respectively.

MOUNTAIN PROVINCE DIAMONDS INC.

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(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

**10. Reconciliation to United States generally accepted accounting principles ("US GAAP")
(Continued):**

(c) Unrealized holding gains and losses on marketable securities and long-term

investments (Continued):

The Company's long-term investments are presented at the lower of cost or market value under Canadian GAAP and would also be accounted for as available-for-sale securities under US GAAP. At March 31, 2006, there is a cumulative unrealized gain of \$880,000 (2005 - Nil) between the carrying value and fair value of long-term investments which has been recorded through comprehensive income for US GAAP purposes in the amounts of \$880,000 (2005 - Nil) for each of the years ended March 31, 2006, and 2005 respectively.

(d) Reporting comprehensive income:

Statement of Financial Accounting Standards No. 130 ("FAS 130") "Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income equals net income (loss) for the period as adjusted for all other non-owner changes in shareholders' equity. FAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement. For the year ended March 31, 2006, the Company has recorded an unrealized holding gain (loss) of \$82,740 (2005 - \$13,450); 2004 - (\$17,856)) on marketable securities classified as "available-for-sale", and on long-term investments of \$880,000 (2005 - Nil) as a component of comprehensive income under US GAAP.

(e) Recent accounting pronouncements:

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which replaces FASB's SFAS No. 123, "Accounting for Stock-Based Compensation", and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in SFAS No. 123. SFAS No. 123R will be effective for the Company commencing April 1, 2006. The Company has not yet determined the effect the adoption of SFAS No. 123R will have on its consolidated financial statements.

MOUNTAIN PROVINCE DIAMONDS INC.

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**10. Reconciliation to United States generally accepted accounting principles ("US GAAP")
(Continued):****(f) Reconciliation:**

The effect of the differences between Canadian GAAP and US GAAP (including practices prescribed by the SEC) on the consolidated balance sheets, statements of loss and cash flows is summarized as follows:

| As at March 31, | 2006 | 2005 |
|---|----------------------|----------------------|
| (i) Total assets: | | |
| Total assets, under Canadian GAAP | \$ 34,874,288 | \$ 36,038,157 |
| Adjustment for mineral property acquisition and deferred exploration costs (Note 10(a)) | (32,481,602) | (32,418,223) |
| Adjustment for change in fair value of available-for-sale marketable securities (Note 10(c) and (d)) | 146,120 | 63,380 |
| Adjustment for change in fair value of long-term investments (Note 10(c) and (d)) | 880,000 | - |
| Total assets, under US GAAP | \$ 3,418,806 | \$ 3,683,314 |
| (ii) Share capital: | | |
| Share capital, under Canadian GAAP | \$ 58,253,663 | \$ 57,607,786 |
| Adjustment for fair value of employee and director options exercised prior to adoption of new accounting standard and transferred to share capital (Note 10(b)) | (20,314) | (20,314) |
| Share capital, under US GAAP | \$ 58,233,349 | \$ 57,587,472 |
| (iii) Contributed surplus | | |
| Contributed surplus, under Canadian GAAP | \$ 561,777 | \$ 257,925 |
| Adjustment for grant of employee stock options (Note 10(b)) | (504,279) | (189,400) |
| Adjustment on adoptions of new accounting standard for stock-based compensation (Note 10(b)) | (74,900) | (74,900) |
| Adjustment for fair value of employee and director options exercised prior to adoption of new accounting standard and transferred to share capital (Note 10(b)) | 20,314 | 20,314 |
| Adjustment for stock-based compensation (Note 10(b)) | 1,704,000 | 1,704,000 |

| | | | | |
|------------------------------------|----|-----------|----|-----------|
| Contributed surplus, under US GAAP | \$ | 1,706,912 | \$ | 1,717,939 |
|------------------------------------|----|-----------|----|-----------|

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MOUNTAIN PROVINCE DIAMONDS INC.

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(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

**10. Reconciliation to United States generally accepted accounting principles ("US GAAP")
(Continued):****(f) Reconciliation (continued):**

| As at March 31, | 2006 | 2005 |
|--|-----------------|-----------------|
| (iv) Accumulated other comprehensive income: | | |
| Adjustment for fair value of available for sale marketable securities (Note 10(c) and (d)) | \$ 146,120 | \$ 63,380 |
| Adjustment for fair value of long-term investments (Note 10(c) and (d)) | 880,000 | - |
| Accumulated other comprehensive income, under US GAAP | \$ 1,026,120 | \$ 63,380 |
| (v) Deficit: | | |
| Deficit, under Canadian GAAP | \$ (24,122,418) | \$ (21,922,530) |
| Adjustment for mineral property acquisition costs and deferred exploration (Note 10(a)) | (32,481,602) | (32,418,223) |
| Grant of stock options (Note 10(b)) | 504,279 | 189,400 |
| Adjustment on adoption of new accounting standard for stock-based compensation (Note 10(b)) | 74,900 | 74,900 |
| Adjustments for stock-based compensation (Note 10(b)) | (1,704,000) | (1,704,000) |
| Deficit, under US GAAP | \$ (57,728,841) | \$ (55,780,453) |

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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

**10. Reconciliation to United States generally accepted accounting principles ("US GAAP")
(Continued):****(f) Reconciliation (continued):**

| Years ended March 31, | 2006 | 2005 | 2004 |
|---|----------------|--------------|----------------|
| (vi) (Loss) earnings and (loss) earnings per share for the year: | | | |
| (Loss) earnings for the year, under Canadian GAAP | \$ (2,199,888) | \$ 1,531,244 | \$ (1,813,005) |
| Adjustment for deferred exploration expenditures (Note 10(a)) | (63,379) | (4,126) | - |
| Adjustment for write-down of mineral property acquisition and deferred exploration costs (Note 10(a)) | - | - | 589,669 |
| Adjustment to gain on sale of mineral property previously written-off (Note 10(a)) | - | 119,386 | - |
| Adjustment for stock-based compensation Note (10(b)) | 314,879 | 189,400 | - |
| Loss (earnings) for the year, under US GAAP | (1,948,388) | 1,835,904 | (1,223,336) |
| Other Comprehensive income: | | | |
| Change in fair value of available for sale marketable securities (Note 10(c) and (d)) | 82,740 | 13,450 | (17,856) |
| Change in fair value of long-term investments (Note 10(c)) | 880,000 | - | - |
| Comprehensive (loss) earnings, under US GAAP | \$ (985,648) | \$ 1,849,354 | \$ (1,241,192) |
| Basic and diluted (loss) earnings per share, under US GAAP | \$ (0.04) | \$ 0.04 | \$ (0.02) |
| (vii) Cash provided by (used in) operating activities: | | | |
| Cash provided by (used in) operating activities, under Canadian GAAP | \$ (727,123) | \$ (858,014) | \$ (1,019,586) |
| Adjustment for deferred exploration (Note 10(a)) | (63,379) | (37,106) | - |

| | | | | | | |
|---|----|-----------|----|-----------|----|-------------|
| Cash provided by (used in) operating activities under US GAAP | \$ | (790,502) | \$ | (895,120) | \$ | (1,019,586) |
|---|----|-----------|----|-----------|----|-------------|

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MOUNTAIN PROVINCE DIAMONDS INC.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended March 31, 2006, 2005, and 2004

**10. Reconciliation to United States generally accepted accounting principles ("US GAAP")
(Continued):****(f) Reconciliation (continued):**

| Years ended March 31, | 2006 | 2005 | 2004 |
|--|-------------|-------------|-------------|
| (viii) Cash provided by (used in) investing activities: | | | |
| Cash provided by (used in) investing activities, under Canadian GAAP | \$ (63,379) | \$ (37,106) | \$ 4,002 |
| Adjustment for deferred exploration (Note 10(a)) | 63,379 | 37,106 | - |
| Cash provided by (used in) investing activities under US GAAP | \$ - | \$ - | \$ 4,002 |

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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)

Patrick C. Evans
(Signature)*

Date: June 29, 2006

Patrick C. Evans
President, CEO and Director

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

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EXHIBIT INDEX

| The following exhibits are attached to and form part of this Annual Report: | | <i>Remarks.</i> |
|---|---|-----------------|
| <i>Exhibit</i> | | |
| 1.1 | By-Laws of the Company | - |
| 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 | - |
| 4.12 | Revised Consulting Agreement dated January 31, 2006 between the Company and Patrick Evans | - |
| 4.13 | Consulting Agreement dated May 11, 2006 between the Company and Jennifer Dawson | - |
| 8.1 | List of Subsidiaries | (2) |
| 11.1 | Corporate Governance Policies dated May 29, 2006. | - |

| | | |
|------|--|-----|
| 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 | - |
| 14.1 | Independent Qualified Person's Review and Technical Report dated June 16, 2003 entitled <i>Gahcho Kué, Northwest Territories, Canada</i> prepared by Malcolm L. Thurston, Ph.D., MAusimm | (3) |
| 15 | Revised Charter of the Board of Directors and Committees thereof of Mountain Province Diamonds Inc. | (3) |

- (1) The Registrant has received approval for confidential treatment with respect to certain portions of this Agreement, which have been omitted, pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.
- (2) See list of subsidiaries on page 10 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.