ENDO PHARMACEUTICALS HOLDINGS INC
Form 10-Q
May 10, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006.

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM ______ TO ______.

Commission file number: 001-15989

ENDO PHARMACEUTICALS HOLDINGS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**13-4022871**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

100 Endo Boulevard

Chadds Ford, Pennsylvania 19317

(Address of Principal Executive Offices)

(610) 558-9800

(Registrant s Telephone Number, Including Area Code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Sections 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 x 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 x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date:

Common Stock, $0.01 par value: 133,060,810 shares as of May 4, 2006.

Table of Contents

ENDO PHARMACEUTICALS HOLDINGS INC.

INDEX

	Page
Forward-Looking Statements	3
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	5
Condensed Consolidated Balance Sheets (Unaudited) March 31, 2006 and December 31, 2005	5
Condensed Consolidated Statements of Operations (Unaudited) Three Months Ended March 31, 2006 and 2005	6
Condensed Consolidated Statements of Cash Flows (Unaudited) Three Months Ended March 31, 2006 and 2005	7
Notes to Condensed Consolidated Financial Statements (Unaudited)	8
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	34
Item 4. Controls and Procedures	35
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3. Defaults Upon Senior Securities	35
Item 4. Submission of Matters to a Vote of Security Holders	35
Item 5. Other Information	35
Item 6. Exhibits	35
SIGNATURES	36

Table of Contents

Forward Looking Statements

This document contains information that includes or is based on forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements, including estimates of future net sales, future net income and future earnings per share, contained in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in documents incorporated by reference, are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed results of operations. Also, statements including words such as believes, expects, anticipates, intends, estimates, or similar expression forward-looking statements. We have based these forward-looking statements on our current expectations and projections about the growth of our business, our financial performance and the development of our industry. Because these statements reflect our current views concerning future events, these forward-looking statements involve risks and uncertainties. Investors should note that many factors, as more fully described or incorporated by reference in Item 1A Risk Factors in this document, supplement, and as otherwise enumerated herein, could affect our future financial results and could cause our actual results to differ materially from those expressed in forward-looking statements contained in this document. Important factors that could cause our actual results to differ materially from the expectations reflected in the forward-looking statements in this document include those factors described or incorporated by reference in this document under Item 1A titled Risk Factors, including, among others:

- our ability to successfully develop, commercialize and market new products;
- timing and results of pre-clinical or clinical trials on new products;
- our ability to obtain regulatory approval of any of our pipeline products;
- competition for the business of our branded and generic products, and in connection with our acquisition of rights to intellectual property assets;
- significant cash payments we may be required to make to Endo Pharma LLC pursuant to a tax sharing agreement;
- market acceptance of our future products;
- government regulation of the pharmaceutical industry;
- our dependence on a small number of products;
- our dependence on outside manufacturers for the manufacture of our products;
- our dependence on third parties to supply raw materials and to provide services for certain core aspects of our business;
- new regulatory action or lawsuits relating to our use of narcotics in most of our core products;

our exposure to product liability claims and product recalls and the possibility that we may not be able to adequately insure ourselves;

our ability to protect our proprietary technology;

the successful efforts of manufacturers of branded pharmaceuticals to use litigation and legislative and regulatory efforts to limit the use of generics and certain other products;

our ability to successfully implement our acquisition and in-licensing strategy;

regulatory or other limits on the availability of controlled substances that constitute the active ingredients of some of our products and products in development;

the availability of third-party reimbursement for our products;

the outcome of any pending or future litigation or claims by the government; and

our dependence on sales to a limited number of large pharmacy chains and wholesale drug distributors for a large portion of our total net sales.

Table of Contents

We do not undertake any obligation to update our forward-looking statements after the date of this Report for any reason, even if new information becomes available or other events occur in the future. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q, 10-K and 8-K reports to the SEC. Also note that we provide the preceding cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the preceding to be a complete discussion of all potential risks or uncertainties.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share data)

	March 31, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 583,903	$ 500,956
Accounts receivable, net	220,868	290,826
Income taxes receivable	16,897	66,461
Inventories, net	54,714	50,983
Prepaid expenses and other current assets	10,900	14,445
Deferred income taxes	67,492	69,714
Total current assets	954,774	993,385
PROPERTY AND EQUIPMENT, Net	35,967	38,001
GOODWILL	181,079	181,079
OTHER INTANGIBLES, Net	108,165	99,065
NOTE RECEIVABLE	49,900	48,925
OTHER ASSETS	13,098	11,223
TOTAL ASSETS	$ 1,342,983	$ 1,371,678
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 109,786	$ 94,787
Accrued expenses	177,662	214,276
Due to Endo Pharma LLC	125,579	200,450
Total current liabilities	413,027	509,513
DEFERRED INCOME TAXES	15,185	14,637
OTHER LIABILITIES	3,445	4,158
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred Stock, $0.01 par value; 40,000,000 shares authorized; none issued		
Common Stock, $0.01 par value; 175,000,000 shares authorized; 132,963,898 and 132,800,873 issued and outstanding at March 31, 2006 and December 31, 2005, respectively	1,330	1,328
Additional paid-in capital	665,530	619,336
Retained earnings	241,530	220,992
Accumulated other comprehensive income	2,936	1,714
Total stockholders equity	911,326	843,370

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,342,983	$ 1,371,678

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share data)

	Three Months Ended March 31,	
	2006	**2005**
NET SALES	$ 205,043	$ 137,754
COST OF SALES	48,737	29,585
GROSS PROFIT	156,306	108,169
COSTS AND EXPENSES:		
Selling, general and administrative	100,167	53,360
Research and development	25,154	30,982
Depreciation and amortization	3,962	3,596
OPERATING INCOME	27,023	20,231
INTEREST INCOME, Net of interest expense of $482 and $474 in 2006 and 2005, respectively	4,563	1,859
INCOME BEFORE INCOME TAX	31,586	22,090
INCOME TAX	11,048	8,275
NET INCOME	$ 20,538	$ 13,815
NET INCOME PER SHARE:		
Basic	$ 0.15	$ 0.10
Diluted	$ 0.15	$ 0.10
WEIGHTED AVERAGE SHARES:		
Basic	132,877	131,871
Diluted	133,790	132,829

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Three Months Ended March 31,	
	2006	**2005**
OPERATING ACTIVITIES:		
Net income	$ 20,538	$ 13,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,962	3,596
Stock-based compensation	2,323	
Accretion of interest on note receivable	(310)	(310)
Deferred income taxes	2,041	(845)
Tax benefits of stock options exercised		322
Amortization of deferred financing costs	96	96
Loss (gain) on disposal of property and equipment	72	(5)
Selling, general and administrative expenses to be funded by Endo Pharma LLC	41,330	2,000
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	69,958	15,490
Inventories	(3,731)	5,576
Note receivable	(665)	(634)
Prepaid and other assets	3,553	72
Accounts payable	18,615	2,697
Accrued expenses	(36,467)	(9,802)
Due to Endo Pharma LLC	(5,624)	
Income taxes receivable/payable	49,564	73
Net cash provided by operating activities	165,255	32,141
INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,894)	(5,796)
Proceeds from the sale of property and equipment	12	1
Acquisitions of license rights	(11,000)	
Net cash used in investing activities	(14,882)	(5,795)
FINANCING ACTIVITIES:		
Capital lease obligations repayments	(694)	(487)
Tax sharing payments to Endo Pharma LLC	(96,715)	
Tax benefits of stock options exercised	28,355	
Exercise of Endo Pharmaceuticals Holdings Inc. Stock Options	1,628	820
Net cash (used in) provided by financing activities	(67,426)	333
NET INCREASE IN CASH AND CASH EQUIVALENTS	82,947	26,679
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	500,956	278,034
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 583,903	$ 304,713
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 248	$ 91

Income taxes paid	$		$	8,802
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES				
Purchase of property and equipment financed by capital leases	$	170	$	689
Change in accrual for purchases of property and equipment	$	(3,616)	$	(2,525)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ENDO PHARMACEUTICALS HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2006

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for interim financial information. In the opinion of management, the accompanying condensed consolidated financial statements of Endo Pharmaceuticals Holdings Inc. (the Company or we or Endo) and its subsidiaries, which are unaudited, include all normal and recurring adjustments necessary to present fairly the Company s financial position as of March 31, 2006 and the results of our operations and our cash flows for the periods presented. The accompanying condensed consolidated balance sheet as of December 31, 2005 is derived from the Company s audited financial statements. Since certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted, we suggest that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended December 31, 2005 contained in the Company s Annual Report on Form 10-K. During 2005, the Company determined that acquisitions of property and equipment on account, which were previously reported as a component of changes in operating assets and liabilities and purchases of property and equipment, are now more appropriately shown as a non-cash investing activity, as opposed to cash used in investing activities, until paid by the Company. Accordingly, the Company s financial statements for the three months ended March 31, 2005 have now been revised to reflect an increase in cash provided by operating activities with a corresponding increase in cash used in investing activities of approximately $2.5 million. Purchases of property and equipment acquired on account have now been presented as a supplemental disclosure of non-cash items. This revision has no effect on net income or the amount of cash and cash equivalents previously reported. Certain other prior period amounts, within the statement of operations, have been reclassified to conform to the current period presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4.* The purpose of this statement is to clarify the accounting of abnormal amounts of idle facility expense, freight, handling costs and waste material. ARB No. 43 stated that under some circumstances these costs may be so abnormal that they are required to be treated as current period costs. SFAS No. 151 requires that these costs be treated, as current period costs regardless if they meet the criteria of so abnormal. In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provision of this Statement was effective for inventory costs incurred beginning on January 1, 2006. The adoption of SFAS No. 151 did not have a material impact on the Company s results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29.* SFAS No. 153 was effective for nonmonetary asset exchanges occurring after January 1, 2006. The adoption of SFAS No. 153 did not have a material impact on the Company s results of operations or financial position.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections,* a replacement of APB Opinion No. 20 and Statement No. 3. SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on the Company s results of operations or financial position.

3. INVENTORIES, NET

Inventories are comprised of the following at March 31, 2006 and December 31, 2005, respectively (in thousands):

	March 31,	**December 31,**

	2006	2005
Raw Materials	$ 10,945	$ 13,094
Work-in-Process	11,326	7,868
Finished Goods	32,443	30,021
Total	$ 54,714	$ 50,983

4. LICENSE AND COLLABORATION AGREEMENTS

DURECT Corporation

In January 2006, DURECT and Endo entered into Amendment No. 3 to the DURECT CHRONOGESIC License Agreement. Prior to this amendment, in addition to other specified termination rights provided to both parties, the Agreement provided Endo with a right to terminate the Agreement starting January 1, 2006 in the event that DURECT had not commenced a specified clinical trial for the CHRONOGESIC™ product candidate on or before January 1, 2006, *provided that* Endo provided DURECT written notice of such termination prior to January 31, 2006. Under Amendment No. 3, the foregoing termination right was amended to provide Endo with the right to terminate the Agreement in the event that (i) DURECT had not delivered to Endo on or before March 31, 2007 a written notice that a human pharmacokinetic trial had been completed with the CHRONOGESIC™ product candidate, together with a full study report of the results of the trial or (ii) Endo, determines, in its sole discretion, to terminate the Agreement during the sixty-day period after DURECT s delivery of such notice, *provided that*, in each case Endo delivers to DURECT its written notice of termination prior to April 30, 2007. Under Amendment No. 3, Endo shall not be responsible for any development costs for the CHRONOGESIC™ product candidate prior to May 1, 2007. Commencing on May 1, 2007, unless the Agreement is earlier terminated by Endo, Endo will fund 50% of the ongoing development costs for the CHRONOGESIC™ product candidate in accordance with the terms of the Agreement.

Noven Pharmaceuticals, Inc.

On March 2, 2006, we amended our license agreement with Noven, effective as of December 31, 2005, to terminate the provisions of the agreement applicable to the generic fentanyl patch product. As part of such amendment, Endo received a right of first negotiation for certain future generic fentanyl patch products that Noven may develop.

ZARS Pharma

On January 6, 2006, we entered into an agreement with ZARS Pharma for the North American rights to Synera™ (lidocaine 70 mg and tetracaine 70 mg) topical patch. Synera™ is for use on intact skin to provide local dermal anesthesia in children and adults. Approved by the U.S. Food and Drug Administration on June 23, 2005, Synera™ is expected to become commercially available in the second half of 2006.

Under the terms of this agreement, we paid ZARS an upfront fee of $11 million, which we capitalized as an intangible asset in January 2006 representing the fair value of these rights, and we may be required to make additional payments to ZARS of up to approximately $27 million upon achievement of certain commercial milestones, $8 million of which will be due upon the first commercial sale of the product, which is expected in the second half of 2006. We are amortizing this intangible asset over its estimated useful life of 10 years. We will also pay ZARS royalties on net sales of Synera™.

SkyePharma, Inc.

SkyePharma, Inc. and the Company have decided to discontinue their development and commercialization of the Propofol IDD-D™ product candidate due to developmental challenges encountered in attempting to achieve the targeted product profile. This decision does not affect the companies agreement related to DepoDur®.

5. GOODWILL AND OTHER INTANGIBLES

Our goodwill and other intangible assets consist of the following at March 31, 2006 and December 31, 2005, respectively (in thousands):

	March 31, 2006	**December 31, 2005**
Goodwill	$ 181,079	$ 181,079
Amortizable Intangibles:		
Licenses	$ 123,100	$ 112,100
Patents	3,200	3,200

	126,300	115,300
Less accumulated amortization	(18,135)	(16,235)
Other Intangibles, net	$ 108,165	$ 99,065

Goodwill and other intangibles represent a significant portion of our assets and stockholders equity. As of March 31, 2006, goodwill and other intangibles comprised approximately 22% of our total assets and 32% of our stockholders equity. During the three months ended March 31, 2006, licenses increased by $11 million as a result of the acquisition of the rights to Synera (See Note 4). SFAS No. 142, Goodwill and Other Intangible Assets, prescribes a two-step method for determining goodwill impairment. In the first step, we determine the fair value of our one reporting unit. If the net book value of our reporting unit exceeds the fair value, we would then perform the second step of the impairment test which requires allocation of our reporting unit s fair value to all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill. An impairment charge will be recognized only when the implied fair value of our reporting unit s goodwill is less than its carrying amount. As a result of the significance of goodwill, our results of operations and financial position in a future period could be negatively impacted should an impairment of goodwill occur.

We have one reportable segment, pharmaceutical products. Goodwill arose as a result of the August 26, 1997 acquisition of certain branded and generic pharmaceutical products, related rights and certain assets of the then DuPont Merck Pharmaceutical Company (n/k/a Bristol-Myers Squibb Pharma Company) and our July 17, 2000 acquisition of Algos Pharmaceutical Corporation, or Algos. Although goodwill arose in two separate transactions, the components of our operating segment have been integrated and are managed as one reporting unit. Our components extensively share assets and other resources with the other components of our business and have similar economic characteristics. In addition, our components do not maintain discrete financial information. Accordingly, the components of our business have been aggregated into one reporting unit and are evaluated as such for goodwill impairment. Goodwill is evaluated for impairment on an annual basis on January 1st of each year unless events or circumstances indicate that an impairment may have occurred between annual dates. On January 1, 2006 and 2005, our goodwill was evaluated for impairment and, based on the fair value of our reporting unit, no impairment was identified.

The cost of licenses are either expensed immediately or, if capitalized, are stated at cost, less accumulated amortization and are amortized using the straight-line method over their estimated useful lives ranging from ten to twenty years, with a weighted average useful life of approximately 15 years. The determination to capitalize amounts related to licenses is based on management s judgments with respect to stage of development, the nature of the rights acquired, alternative future uses, developmental and regulatory issues and challenges, the net realizable value of such amounts based on projected sales of the underlying products, the commercial status of the underlying products and/or various other competitive factors. We determine amortization periods for licenses based on our assessment of various factors impacting estimated useful lives and cash flows of the acquired rights. Such factors include the expected launch date of the product, the strength of the intellectual property protection of the product and various other competitive, developmental and regulatory issues, and contractual terms. Significant changes to any of these factors may result in a reduction in the useful life of the license and an acceleration of related amortization expense, which could cause our operating income, net income and earnings per share to decrease. The value of these licenses is subject to continuing scientific, medical and marketplace uncertainty. During the three months ended March 31, 2005, the Company expensed $20 million with respect to the acquisitions of marketing and development license rights for two products that are currently in development. We expensed the cost of these license rights based on the fact that we acquired both marketing and development rights for products that do not have regulatory approval and that do not have currently identifiable alternative future uses. As such, it was determined that the cost of the right to develop the products and the cost of the right to market the products were inextricably linked and therefore expensed in the accompanying financial statements. Patents acquired in the Algos merger are stated at cost, less accumulated amortization, and are amortized using the straight-line method over their estimated useful lives of seventeen years.

Estimated amortization of intangibles for the five fiscal years subsequent to December 31, 2005 is as follows (in thousands):

2006	$ 8,335
2007	8,335
2008	8,335
2009	8,335
2010	8,335

Table of Contents

6. NOTE RECEIVABLE

In July 2004, we entered into a license agreement and a loan agreement with Vernalis Development Limited, or Vernalis, under which Vernalis agreed to exclusively license to us rights to market Frova® (frovatriptan) in North America. Under the loan agreement, we provided Vernalis with a loan of $50 million in August 2004. The loan was primarily used to make a payment in full and final settlement of the amounts due to Elan Corporation from Vernalis in connection with Vernalis reacquisition of the North American rights to Frova®. At our election, we are able to offset $20 million of the $40 million menstrual migraine indication approval milestone and 50% of all royalties to be paid under the license agreement to Vernalis to repay the loan. To the extent not previously repaid, the loan is due in full after five years. Interest is at the rate of 5% per annum payable semi-annually. However, Vernalis has the option to defer payment of interest and increase the loan outstanding each time an interest payment becomes due. Vernalis has elected to defer the payment of the last three semi-annual interest amounts otherwise due January 31 and July 31 totaling approximately $3.7 million.

We estimated that an approximate fair market rate of interest for this type of secured loan was 8% per annum and therefore recorded the note receivable at its present value at inception of $43.8 million. The note receivable is being accreted up to its face amount at maturity using the effective interest method, and thus the effective interest rate over the five-year term will be 8% per annum. The difference of $6.2 million between the face amount of the note and its present value at inception has been treated as additional consideration paid to acquire the license rights and has been included in Other Intangibles.

7. COMPREHENSIVE INCOME

Comprehensive income includes the following components for the three months ended March 31, 2006 and 2005 (in thousands):

	March 31, 2006	March 31, 2005
Net income	$ 20,538	$ 13,815
Other comprehensive income:		
Unrealized gains on securities, net of tax	1,222	341
Total comprehensive income	$ 21,760	$ 14,156

8. COMPENSATION RELATED TO STOCK OPTIONS

Endo Pharma LLC 1997 Executive and Employee Stock Option Plans and Endo Pharma LLC 2000 Supplemental Executive

and Employee Stock Option Plans

On November 25, 1997, the Company established the 1997 Employee Stock Option Plan and the 1997 Executive Stock Option Plan (collectively, the 1997 Stock Option Plans). On July 17, 2000, the 1997 Stock Option Plans were amended and restated. The Endo Pharma LLC 1997 Stock Option Plans are these amended and restated 1997 Stock Options Plans and reserved an aggregate of 25,615,339 shares of common stock of the Company held by Endo Pharma LLC for issuance. Stock options granted under the Endo Pharma LLC 1997 Stock Option Plans expire on August 26, 2007. Upon exercise of these stock options, only currently outstanding shares of common stock of the Company held by Endo Pharma LLC are issued. Exercise of these stock options has not and will not result in the issuance of additional shares in the Company and does not dilute the ownership interests of our public stockholders.

Pursuant to the Algos merger and related recapitalization of the Company on July 17, 2000, the Endo Pharma LLC 2000 Supplemental Stock Option Plans were established. The Endo Pharma LLC 2000 Supplemental Stock Option Plans reserved an aggregate of 10,672,314 shares of common stock of the Company held by Endo Pharma LLC for issuance. Stock options granted under the Endo Pharma LLC 2000 Supplemental Stock Option Plans expire on August 26, 2007. The Endo Pharma LLC 2000 Supplemental Stock Option Plans became effective on January 1, 2003, resulting in the issuance of 10,672,314 stock options to certain employees and members of management. No additional shares of Company common stock have been or will be issued as a result of the exercise of these stock options, because these stock options are exercisable only into shares of Company common stock that are held by Endo Pharma LLC. Accordingly, exercise of these stock options has not and will not result in the issuance of additional shares in the Company and does not dilute the ownership interests of our public stockholders.

Endo Pharmaceuticals Holdings Inc. 2000 and 2004 Stock Incentive Plans

On August 11, 2000, we established the Endo Pharmaceuticals Holdings Inc. 2000 Stock Incentive Plan. The 2000 Stock Incentive Plan reserves an aggregate of 4,000,000 shares of common stock of the Company for issuance to employees, officers, directors and consultants. The 2000 Stock Incentive Plan provides for the issuance of stock options, restricted stock, stock bonus awards, stock appreciation rights or performance awards. In May 2004, our stockholders approved the Endo Pharmaceuticals Holdings Inc. 2004 Stock Incentive Plan. The maximum number of shares of Company stock reserved for issuance under the 2004 Stock Incentive Plan is 4,000,000 shares. The 2004 Plan provides for the grant of stock options, stock appreciation rights, shares of restricted stock, performance shares, performance units or other share-based awards that may be granted to executive officers and other employees of the Company, including officers and directors who are employees, to non-employee directors and to consultants to the Company. As of March 31, 2006, only stock options have been awarded under both plans. Stock options granted under the 2000 and 2004 Stock Incentive Plans generally vest over four years and expire ten years from the date of grant. Unlike the stock options granted under the Endo Pharma LLC Stock Option Plans, the exercise of the stock options granted pursuant to the Endo Pharmaceuticals Holdings Inc. 2000 and 2004 Stock Incentive Plans will dilute the ownership interests of our public stockholders.

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. No stock-based employee compensation cost was recognized in the Statement of Operations for the three months ended March 31, 2005. Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost recognized during the three months ended March 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement No. 123(R). Results for prior periods have not been restated.

As a result of adopting Statement No. 123(R) on January 1, 2006, the Company s income before income taxes and net income for the three months ended March 31, 2006, are $2.3 million ($2.0 million in selling, general and administrative expenses and $0.3 million in research and development expenses) and $1.4 million lower, respectively, than if it had continued to account for share-based compensation under Opinion 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been $0.17 and $0.16, respectively, if the Company had not adopted Statement No. 123(R), compared to reported basic and diluted earnings per share of $0.15 and $0.15, respectively.

Table of Contents

Prior to the adoption of Statement No. 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The $28.4 million excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if the Company had not adopted Statement No. 123(R).

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement No. 123 to options granted under the Company s stock-based compensation plans for the three months ended March 31, 2005 (in thousands, except per share data). For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing model and amortized to expense over the options vesting periods.

	Three Months Ended March 31, 2005	
Net income, as reported	$	13,815
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards		(1,700)
Add: Tax effect of stock-based employee compensation expense under fair value based methods		637
Pro forma net income	$	12,752
Basic earnings per share, as reported	$	0.10
Basic earnings per share, pro forma	$	0.10
Diluted earnings per share, as reported	$	0.10
Diluted earnings per share, pro forma	$	0.10
Weighted average shares outstanding		
Basic		131,871
Diluted		132,829

For all of the Company s stock-based compensation plans, the fair value of each grant was estimated at the date of grant using the Black-Scholes option-pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as the Company has not paid cash dividends to date and does not currently expect to pay cash dividends) and the expected term of the option. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company s stock price and other factors. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The expected term of the option was calculated using the simplified method.

A summary of the activity under 2000 and 2004 Stock Incentive Plans for the three months ended March 31, 2006 is as follows:

	Number of Shares	Weighted Average Exercise Price		Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, January 1, 2006	3,299,430	$	14.78		
Granted	1,468,270	$	28.72		
Exercised	(163,025)	$	9.99		
Forfeited	(62,272)	$	20.76		
Expired	(843)	$	15.66		
Outstanding, March 31, 2006	4,541,560	$	19.38	8.20	$ 61,010,182
Vested and expected to vest, March 31, 2006	4,313,771	$	19.09	8.14	$ 59,177,164
Exercisable, March 31, 2006	1,337,448	$	12.36	6.67	$ 27,349,111

The total intrinsic value of options exercised during the three months ended March 31, 2006 was $3.3 million. The weighted-average grant date fair value of the stock options granted in the three months ended March 31, 2006 and 2005 were $15.57 per option and $11.89 per option, respectively, determined using the following assumptions:

	2006	2005
Average expected term (years)	6.25	5.0
Risk-free interest rate	4.59%	4.0%
Dividend yield	0.00	0.00
Expected volatility	50%	59%

As of March 31, 2006, the total remaining unrecognized compensation cost related to non-vested stock options amounted to $35.2 million. The weighted average remaining requisite service period of the non-vested stock options was 2.8 years. This expected cost does not include the impact of any future stock-based compensation awards.

9. RELATED PARTY TRANSACTIONS

Tax Sharing Agreement. On July 14, 2000, Endo Pharma LLC was formed in connection with the Algos merger to ensure that the stock options granted pursuant to the Endo Pharma LLC Stock Option Plans diluted only the Endo common stock held by persons and

entities that held such shares prior to our merger with Algos. Endo Pharma LLC is a limited liability company that held approximately 15% of our common stock at December 31, 2005 but less than 1% of our common stock as of March 31, 2006, in which affiliates of Kelso & Company and certain members of management have an interest. Upon the exercise of these stock options, only currently outstanding shares of our common stock held by Endo Pharma LLC have been and will be delivered. Because Endo Pharma LLC, and not us, has been and will provide the shares upon the exercise of these options, we have entered into a tax sharing agreement with Endo Pharma LLC under which we are required to pay to Endo Pharma LLC the amount of the tax benefits usable by us as a result of the exercise of these stock options into shares of our common stock held by Endo Pharma LLC. As of March 31, 2006, approximately 35 million of these stock options had been exercised into shares of our common stock held by Endo Pharma LLC. Upon exercise of any of these Endo Pharma LLC stock options, we generally will be permitted to deduct as a compensation charge, for federal income tax purposes, an amount equal to the difference between the market price of our common stock and the exercise price paid upon exercise of these options (as of March 31, 2006, approximately $740 million), which is estimated to result in a tax benefit amount of approximately $285 million. Under the tax sharing agreement, we are required to pay this $285 million, $153 million of which has already been paid as of March 31, 2006, to Endo Pharma LLC to the extent that a compensation charge deduction is usable by us to reduce our taxes and based upon the assumption that all other deductions of Endo are used prior thereto. Additionally, as part of the tax sharing agreement, Endo Pharma LLC will reimburse us for the after-tax employer payroll taxes paid by us as a result of the exercise of the 35 million options discussed above. We have paid approximately $11 million in employer payroll taxes, of which Endo Pharma LLC will reimburse us for approximately $7 million which represents the after-tax employer payroll tax paid by us for the periods from 2001 through March 31, 2006. As of March 31, 2006, our net tax sharing liability due to Endo Pharma LLC is approximately $125.6 million. All payments made and accrued pursuant to the tax sharing agreement have been reflected as a reduction of stockholders equity in the accompanying financial statements. The estimated tax benefit amount payment to Endo Pharma LLC attributable to Endo Pharma LLC stock options exercised may increase if certain holders of Endo Pharma LLC stock options exercise additional stock options in the future.

During the three months ended March 31, 2006, approximately 2.4 million shares underlying stock options granted under the Endo Pharma LLC stock option plans were exercised. Since the attributable compensation charge deductions are usable to reduce our taxes in 2006, we are obligated, under our amended tax sharing agreement, to pay to Endo Pharma LLC an additional tax benefit amount of approximately $27 million, which is included in our net tax sharing liability of $125.6 million referred to above. Fifty percent of the estimated tax benefit amount attributable to these exercises and any additional tax benefits attributable to the exercise of stock options granted under the Endo Pharma LLC stock option plans in 2006 will be due within 15 business days of the date we receive an opinion on our final audited 2006 financial statements from our independent registered public accounting firm, and the remaining tax benefit amount attributable to 2006 is due within 30 business days of the date on which we file our 2006 tax return with the Internal Revenue Service.

As of March 31, 2006, there were approximately 0.4 million stock options remaining to be exercised under the Endo Pharma LLC stock option plans. Using a weighted average exercise price of $2.42 per share and an assumed tax rate of 38.25%, if all of these remaining stock options under the Endo Pharma LLC stock option plans were vested and exercised, and assuming the price of our common stock was $32.81 per share, the closing price on March 31, 2006, we would generally be able to deduct, for income tax purposes, compensation of approximately $12 million, which could result in a tax benefit amount of approximately $5 million payable to Endo Pharma LLC in 2007 and beyond.

As of March 31, 2006, there were approximately 0.8 million stock options remaining to be granted under the Endo Pharma LLC stock option plans. Using a weighted average exercise price of $2.42 per share and an assumed tax rate of 38.25%, if all of these remaining stock options under the Endo Pharma LLC stock option plans were granted, vested and exercised, and assuming the price of our common stock was $32.81 per share, the closing price on March 31, 2006, we would generally be able to deduct, for income tax purposes, compensation of approximately $24 million, which could result in a tax benefit amount of approximately $9 million payable to Endo Pharma LLC in 2007 and beyond.

Settlement of Contingent Obligation. During the three months ended March 31, 2005, the Company reached an agreement with an individual to compensate him a total of $2 million for past services rendered to the Company. This agreement was finalized in May 2005, and the $2 million was recorded in selling, general and administrative expenses during the three months ended March 31, 2005. Endo Pharma LLC made these payments totaling $2 million on behalf of the Company, and they have been treated as a capital contribution by Endo Pharma LLC.

Executive Compensation. In March 2006, Endo Pharma LLC advised our board of directors that it intended to pay a one-time cash bonus to each of Mr. Peter Lankau, our President and Chief Executive Officer, Ms. Caroline Manogue, our Executive Vice President, Chief Legal Officer and Secretary, and Mr. Jeffrey Black, our Executive Vice President, Chief Financial Officer and

Treasurer in the amount of $3 million, $6 million and $10 million, respectively, in recognition of their significant contributions to our success. These bonus payments have been recorded in selling, general and administrative expenses during the three months ended March 31, 2006. These payments were made in April 2006. In addition, a portion of these bonus payments may, subject to IRS regulations, be permitted to be deducted for income tax purposes. We are not required to pay nor will we pay to Endo Pharma LLC the amount of any of the tax benefits related to these bonus payments pursuant to the Tax Sharing Agreement between us and Endo Pharma LLC. These bonuses were funded entirely by Endo Pharma LLC, with no contribution by us and they have been treated as a capital contribution by Endo Pharma LLC.

Endo Pharma LLC has also informed us that, in connection with its eventual winding up, it would make a special allocation to Ms. Carol Ammon, our Chairman of the Board and former Chief Executive Officer, of approximately $22 million, with all or a portion of Ms. Ammon s payment being satisfied by granting to her the remaining unallocated Endo Pharma LLC stock options of approximately 0.8 million shares under the Endo Pharma LLC stock option plans. This amount has been recorded in selling, general and administrative expenses during the three months ended March 31, 2006 and as a capital contribution by Endo Pharma LLC. This grant of options to Ms. Ammon is currently expected to be made in the last quarter of 2006, as determined by Endo Pharma LLC. The exercise of these stock options (assuming they are granted and exercised) will result in compensation charges which we will be permitted to deduct for income tax purposes. Under the terms of the Tax Sharing Agreement, we would be required to pay to Endo Pharma LLC the amount of the tax benefit usable by us as a result of the exercise of these stock options into shares of our common stock held by Endo Pharma LLC. Upon the exercise of the stock options granted under the Endo Pharma LLC stock option plans, only currently outstanding shares of our common stock held by Endo Pharma LLC will be received by holders of such options upon exercise. The exercise of stock options pursuant to Endo Pharma LLC stock option plans does not increase the number of our shares outstanding, and only dilutes the equity holdings of the members of Endo Pharma LLC and not the equity holdings of our other stockholders. If the 0.8 million stock options are granted and exercised by Ms. Ammon, using a weighted average exercise price of $2.42 per share and an assumed tax rate of 38.25%, and assuming the price of our common stock was $32.81 per share, the closing price on March 31, 2006, we would generally be able to deduct, for income tax purposes, compensation of approximately $24 million, which could result in a tax benefit amount of approximately $9 million payable to Endo Pharma LLC in 2007 and beyond.

10. COMMITMENTS AND CONTINGENCIES

Manufacturing, Supply and Other Service Agreements We contract with various third party manufacturers and suppliers to provide us with our raw materials used in our products and finished goods. Our most significant agreements are with Novartis Consumer Health, Teikoku Seiyaku Pharmaceuticals and Mallinckrodt. If for any reason we are unable to obtain sufficient quantities of any of the finished goods or raw materials or components required for our products, this may have a material adverse effect on our business, financial condition and results of operations.

Novartis Consumer Health, Inc.

On May 3, 2001, we entered into a long-term manufacturing and development agreement with Novartis Consumer Health, Inc. whereby Novartis has agreed to manufacture certain of our commercial products and products in development. We are required to purchase, on an annual basis, a minimum amount of product from Novartis. The purchase price per product is equal to a predetermined amount per unit, subject to periodic adjustments. This agreement initially had a five-year term, with automatic five-year renewals thereafter. In August 2005, we extended this agreement until 2011, with automatic five-year renewals thereafter. We are required to purchase a minimum of $7.8 million per year through December 31, 2009. Either party may terminate this agreement on three-years notice, effective at any time after December 31, 2006. In addition, should we terminate this agreement effective prior to December 31, 2011 upon three-years notice, we must pay Novartis certain early termination fees. Either party may also terminate this agreement on account of a material breach by the other.

Teikoku Seiyaku Co., Ltd.

Under the terms of this agreement, Teikoku, a Japanese manufacturer, manufactures Lidoderm® at its Japanese facility for commercial sale by us in the United States. We also have an option to extend the supply area to other territories within a defined period of time. The purchase price for the product is equal to a predetermined amount per unit of product. The term of this agreement is from November 23, 1998 until the shorter of (1) the expiration of the last to expire patent that is licensed to us from Hind Healthcare Inc. or (2) November 20, 2011. This agreement may be terminated for material breach by either party and by us if the Hind Healthcare license agreement is terminated.

Table of Contents

Mallinckrodt Inc.

Under the terms of this agreement, Mallinckrodt manufactures and supplies to us narcotic active drug substances, in bulk form, and raw materials for inclusion in our controlled substance pharmaceutical products. We are required to purchase a fixed percentage of our annual requirements of each narcotic active drug substance from Mallinckrodt. The purchase price for these substances is equal to a fixed amount, adjusted on an annual basis. The initial term of this agreement is July 1, 1998 until June 30, 2013, with an automatic renewal provision for unlimited successive one-year periods. Either party may terminate this agreement for a material breach.

General

In addition to the manufacturing and supply agreements described above, we have agreements with (1) UPS Supply Chain Solutions, Inc. (f/d/b/a Livingston Healthcare Services, Inc.) for customer service support, warehouse and distribution services and certain financial functions that expires in 2010, (2) Kunitz and Associates Inc. for assistance with adverse event reporting and (3) PPD Development, LP for clinical development services, business development support and medical information services. Although we have no reason to believe that these agreements will not be honored, failure by any of these third parties to honor their contractual obligations may have a materially adverse effect on our business, financial condition and/or results of operations.

License Agreements, Milestones and Royalties

Hind Healthcare Inc.

Under the terms of the Hind License Agreement, royalties are recorded as a reduction to net sales due to the nature of the license agreement and the characteristics of the license involvement by Hind in Lidoderm®. The royalty rate is 10% of net sales through the shorter of (1) the expiration of the last licensed patent or (2) November 20, 2011, including a minimum royalty of at least $500,000 per year. During the three months ended March 31, 2006 and 2005, we accrued $13.8 million and $7.1 million for these royalties to Hind, respectively.

Penwest Pharmaceuticals

Under the terms of the amended and restated strategic alliance agreement with Penwest Pharmaceuticals Co. (Penwest), Penwest is entitled to receive royalties equal to a percentage beginning at 50%, which could decline to 40% based upon the achievement of certain criteria, of the net realization (as defined in the agreement) of oxymorphone ER. On March 18, 2003, we received notice from Penwest that it was exercising its right under the agreement to cease funding its share of the development and pre-launch marketing costs of this product on account of their concern about their ability to access external capital funding opportunities in the future. Accordingly, we have been and continue to be responsible for funding 100% of these remaining costs until oxymorphone ER is approved by the FDA, at which time we will recoup, from the royalties due to Penwest, the full amount of what Penwest should have contributed had it not exercised such right.

DURECT Corporation

In January 2006, DURECT and Endo entered into Amendment No. 3 to the DURECT CHRONOGESIC License Agreement. Prior to this amendment, in addition to other specified termination rights provided to both parties, the Agreement provided Endo with a right to terminate the Agreement starting January 1, 2006 in the event that DURECT had not commenced a specified clinical trial for the CHRONOGESIC™ product candidate on or before January 1, 2006, *provided that* Endo provided DURECT written notice of such termination prior to January 31, 2006. Under Amendment No. 3, the foregoing termination right was amended to provide Endo with the right to terminate the Agreement in the event that (i) DURECT had not delivered to Endo on or before March 31, 2007 a written notice that a human pharmacokinetic trial had been completed with the CHRONOGESIC™ product candidate, together with a full study report of the results of the trial or (ii) Endo, determines, in its sole discretion, to terminate the Agreement during the sixty-day period after DURECT s delivery of such notice, *provided that*, in each case Endo delivers to DURECT its written notice of termination prior to April 30, 2007. Under Amendment No. 3, Endo shall not be responsible for any development costs for the CHRONOGESIC™ product candidate prior to May 1, 2007. Commencing on May 1, 2007, unless the Agreement is earlier terminated by Endo, Endo will fund 50% of the ongoing development costs for the CHRONOGESIC™ product candidate in accordance with the terms of the Agreement. Endo will also reimburse DURECT for a portion of its prior development costs upon the achievement of certain milestones. Milestone payments made by Endo under the DURECT CHRONOGESIC License Agreement could total up to $52.0 million. Endo and DURECT will share profits equally, based on projected financial performance of CHRONOGESIC . In addition, the DURECT CHRONOGESIC License Agreement also contains terms and conditions customary for this type of arrangement, including representations, warranties, indemnities and termination rights. The DURECT CHRONOGESIC License

Table of Contents

Agreement generally lasts until the underlying patents on the product expire. With respect to termination rights, the DURECT CHRONOGESIC License Agreement permits Endo to terminate its continued participation under a number of circumstances, one of which could require Endo to pay DURECT up to $10.0 million.

On March 14, 2005, we announced that we signed an agreement that gives us the exclusive license to develop and commercialize DURECT s sufentanil-containing transdermal patch in the U.S. and Canada (the DURECT Sufentanil Agreement). The sufentanil patch, which is in early-stage clinical development, is intended to provide relief of moderate-to-severe chronic pain for up to seven days. We have assumed all remaining development and regulatory filing responsibility for this product, including the funding thereof. Under the terms of the DURECT Sufentanil Agreement, in April 2005, we paid DURECT a $10 million upfront fee, which was expensed as research and development in the first quarter of 2005, with additional payments of approximately $35 million upon achievement of predetermined regulatory and commercial milestones. We will also pay royalties to DURECT on net sales of the sufentanil transdermal patch. In addition, the DURECT Sufentanil Agreement also contains terms and conditions customary for this type of arrangement, including representations, warranties, indemnities and termination rights. The DURECT Sufentanil Agreement will continue in effect until terminated. The DURECT Sufentanil Agreement provides each party with specified termination rights, including the right of each party to terminate the DURECT Sufentanil Agreement upon material breach of the DURECT Sufentanil Agreement by the other party and the right of Endo to terminate the DURECT Sufentanil Agreement at any time without cause subject to a specified notice period.

SkyePharma, Inc.

Under the terms of our agreement with SkyePharma, we are required to pay to SkyePharma a share of DepoDur® sales revenue, which share may increase from 20% initially, to a maximum of 60%, of net sales as sales achieve certain thresholds. In addition, future milestone payments of $15 million and $20 million may be due SkyePharma in the first calendar year in which net sales of DepoDur® exceed $125 million and $175 million, respectively.

In addition, this agreement also contains terms and conditions customary for this type of arrangement, including representations, warranties, indemnities and termination rights. This agreement generally lasts until the underlying patents on the product expire. With respect to termination rights, this agreement permits Endo to terminate its continued participation under a number of circumstances, one of which could require us to pay SkyePharma $5.0 million.

EpiCept Corp.

Our license agreement with EpiCept provides for Endo to pay EpiCept milestones as well as royalties on the net sales of EpiCept s LidoPAIN® BP product. EpiCept has also retained an option to co-promote the LidoPAIN® BP product. Under this agreement, Endo also received an exclusive, worldwide license to certain patents of EpiCept Corp. Milestone payments made by Endo under this agreement, including regulatory milestones and sales thresholds, could total up to $82.5 million.

Vernalis Development Limited

Under the terms of our license agreement with Vernalis, under which Vernalis agreed to exclusively license to us rights to market the product Frova® (frovatriptan) in North America, we will make anniversary payments for the first two years of $15 million in 2005 and 2006 (the first $15 million anniversary payment was made in September 2005), and a $40 million milestone payment upon FDA approval for the menstrual migraine indication for Frova®. At our election, we are able to offset $20 million of the $40 million menstrual migraine indication approval milestone and 50% of all royalties to be paid under the license agreement to repay the $50 million loan we provided to Vernalis in August 2004 (See Note 6). In addition, Vernalis will receive one-time milestone payments for achieving defined annual net sales targets. These sales milestone payments increase based on increasing net sales targets ranging from a milestone of $10 million on $200 million in net sales to a milestone of $75 million on $1.2 billion in net sales. These sales milestones could total up to $255 million if all of the defined net sales targets are achieved. We will also pay royalties to Vernalis based on the net sales of Frova®. On July 1, 2005, we entered into a co-promotion agreement, as amended on December 22, 2005, with Vernalis. The co-promotion agreement, as amended, is related to our license agreement with Vernalis. Pursuant to the license agreement, Vernalis had retained rights to co-promote Frova® in the United States. Vernalis has exercised its co-promotion option, and the co-promotion agreement, as amended, sets forth the certain specific terms and conditions governing such co-promotion and amends, restates and supersedes certain sections of the license agreement. Under the terms of both the license and co-promotion agreements, both as amended, we will reimburse Vernalis for certain defined costs of their sales personnel beginning in January 2006.

17

Orexo AB

Our agreement with Orexo provides for us to make additional license fees and payments based on development and regulatory milestones, which may total up to $22.1 million through FDA approval of Rapinyl s New Drug Application, $12.5 million of which has been recorded through March 31, 2006, $5.2 million of which has been included in research and development expense during the three months ended March 31, 2006. This agreement also provides for royalties upon commercial sales and may include sales milestones, up to $39.2 million, if defined sales thresholds are achieved. In addition, this license agreement also contains customary terms and conditions, including representations, warranties, indemnities and termination rights. The term of this license agreement is until the later of (i) the expiration of the applicable patents or (ii) the expiration of any market exclusivity right related to Rapinyl . We can terminate the license agreement under certain circumstances, including upon six months written notice, and we may be required to pay a termination fee of up to $750,000.

ProEthic Pharmaceuticals, Inc.

On March 14, 2005, we entered into an agreement with ProEthic Pharmaceuticals, Inc. for the U.S. and Canadian rights to develop and commercialize a once-daily ketoprofen-containing topical patch. Ketoprofen is a non-steroidal anti-inflammatory drug (NSAID) generally used for the treatment of inflammation and pain and currently available in the U.S. only in oral form. Currently in Phase II clinical trials in the U.S., the ketoprofen patch is being developed for the localized treatment of acute pain associated with soft-tissue injuries such as tendonitis or joint sprains and strains. Under the terms of the agreement, in March 2005, we made a $10 million upfront payment, which was expensed as research and development during the three months ended March 31, 2005, we accrued a $5 million milestone payment during the three months ended March 31, 2006 based upon the achievement of certain criteria which has been included in research and development expense, and we could be required to make additional payments of approximately $8 million for the achievement of certain regulatory and other milestones. We will also pay royalties on net sales of the ketoprofen patch. In addition, the license agreement also contains customary terms and conditions, including representations, warranties, indemnities and termination rights. The term of this license agreement shall be until the later of (i) the expiration of the applicable patents or (ii) the tenth (10th) anniversary of the date of the first commercial sale of the product. We can terminate the agreement at any time upon no more than ninety (90) days written notice.

Zars Pharma

On January 6, 2006, we entered into an agreement with ZARS Pharma for the North American rights to Synera™ (lidocaine 70 mg and tetracaine 70 mg) topical patch. Synera™ is for use on intact skin to provide local dermal anesthesia in children and adults. Approved by the FDA on June 23, 2005, Synera™ is expected to become commercially available in the second half of 2006. Under the terms of this agreement, we paid ZARS an upfront fee of $11 million which was capitalized in January 2006, and we may be required to make additional payments to ZARS of up to approximately $27 million upon achievement of certain commercial milestones, $8 million of which will be due upon the first commercial sale of the product, which is expected in the second half of 2006. We will also pay ZARS royalties on net sales of Synera™.

Life Sciences Opportunities Fund (Institutional) II, L.P.

On December 12, 2003, we entered into a subscription agreement to invest up to $10 million into Life Sciences Opportunities Fund (Institutional) II, L.P., a Delaware limited partnership formed to carry out investments in life science companies. As part of this investment, we are able to capitalize on the knowledge of LOF Partners, LLC, the general partner, of and its access to, life sciences entities with promising pharmaceutical assets, technologies and management talent and on the general partner s wide range of industry contacts and resources. As of March 31, 2006, we have invested $2.7 million in this partnership and are accounting for this investment utilizing the equity method.

Employment Agreements

We have entered into employment agreements with certain members of management.

Research Contracts

In addition to our agreement with PPD Development, LP, we routinely contract with universities, medical centers, contract research organizations and other institutions for the conduct of research and clinical studies on our behalf. These agreements are generally for the duration of the contracted study and contain provisions that allow us to terminate prior to completion.

Table of Contents

Collaboration Agreements

We have also entered into certain collaboration agreements with third parties for the development of pain management products. Potential milestone payments pursuant to these contracts could total up to $89 million. These agreements require us to share in the development costs of such products and grant marketing rights to us for such products. If our third party partners are unable or unwilling to fund their portion of the collaboration project with us, this may adversely affect our results of operations and cash flows in the foreseeable future.

Legal Proceedings

While we cannot predict the outcome of the following legal proceedings, we believe that the claims against us are without merit, and we intend to vigorously defend our position. An adverse outcome in any of these proceedings could have a material adverse effect on our current and future financial position and results of operations. No amounts have been accrued with respect to any of these unsettled legal proceedings at March 31, 2006.

Purdue Pharma L.P., et al. v. Endo Pharmaceuticals Inc., et al., Index No. 00 Civ. 8029 (SHS) (S.D.N.Y.); Purdue Pharma L.P., et al. v. Endo Pharmaceuticals Inc., et al., Index No. 01 Civ. 2109 (SHS) (S.D.N.Y.); Purdue Pharma L.P., et al. v. Endo Pharmaceuticals Inc., et al., Index No. 01 Civ. 8177 (SHS) (S.D.N.Y.)

On October 20, 2000, The Purdue Frederick Company and related companies (Purdue Frederick) filed suit against us and our subsidiary, Endo Pharmaceuticals Inc. (EPI), in the U.S. District Court for the Southern District of New York alleging that EPI s bioequivalent version of Purdue Frederick s OxyContin® (oxycodone hydrochloride extended-release tablets), 40mg strength, infringes three of its patents. This suit arose after EPI provided the plaintiffs with notice that its ANDA submission for a bioequivalent version of Purdue Frederick s OxyContin®, 40mg strength, challenged the listed patents for OxyContin® 40mg tablets. On March 13, 2001, Purdue Frederick filed a second suit against us and EPI in the U.S. District Court for the Southern District of New York alleging that EPI s bioequivalent versions of Purdue Frederick s OxyContin®, 10mg and 20mg strengths, infringe the same three patents. This suit arose from EPI having amended its earlier ANDA on February 9, 2001 to add bioequivalent versions of the 10mg and 20mg strengths of OxyContin®. On August 30, 2001, Purdue Frederick filed a third suit against us and EPI in the U.S. District Court for the Southern District of New York alleging that EPI s bioequivalent version of Purdue Frederick s OxyContin®, 80mg strength, infringes the same three patents. This suit arose from EPI having amended its earlier ANDA on July 30, 2001 to add the bioequivalent version of the 80mg strength of OxyContin®.

For each of the 10mg, 20mg, 40mg and 80mg strengths of this product, EPI made the required Paragraph IV certification against the patents listed in the FDA s Orange Book as covering these strengths of OxyContin®. EPI pleaded counterclaims that the patents asserted by Purdue Frederick are invalid, unenforceable and/or not infringed by EPI s formulation of oxycodone hydrochloride extended-release tablets, 10mg, 20mg, 40mg and 80mg strengths. EPI also counterclaimed for antitrust damages based on allegations that Purdue Frederick obtained the patents through fraud on the United States Patent and Trademark Office and is asserting them while aware of their invalidity and unenforceability.

The trial of the patent claims in all three of the suits against us and EPI concluded on June 23, 2003. On January 5, 2004, the district court issued an opinion and order holding that, while Endo infringes the three Purdue patents, the patents are unenforceable due to inequitable conduct. The district court, therefore, dismissed the patent claims against us and EPI, declared the patents invalid, and enjoined Purdue from further enforcement of the patents. Purdue filed an appeal, as well as motions to expedite the appeal and to stay the injunction against enforcement of the patents until the appeal is resolved. Both motions were denied on March 18, 2004. In turn, we have cross-appealed the district court s infringement ruling. Briefing on the appeal and cross-appeal concluded in July 2004. By an earlier order, the judge bifurcated the antitrust counterclaims for a separate and subsequent trial. On November 3, 2004, the oral arguments relating to the appeal of this case were heard by the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., at which hearing both sides presented their arguments before a three-judge panel. On June 7, 2005, we announced that the U.S. Court of Appeals for the Federal Circuit in Washington, D.C., had affirmed the Opinion and Order issued in Endo s favor by the U.S. District Court for the Southern District of New York on January 5, 2004. This affirmance by the Federal Circuit Court dismisses the claims that Endo s oxycodone extended-release tablets, 10mg, 20mg, 40mg, and 80mg, a bioequivalent version of Purdue Frederick s OxyContin®, infringe Purdue s U.S. Patent Nos. 5,549,912, 5,508,042 and 5,656,295, and permanently enjoined Purdue from enforcing these patents. On June 21, 2005, Purdue filed a petition with the Federal Circuit seeking rehearing of the case by the panel that issued the June 7, 2005 decision, or alternatively by the entire court. On July 22, 2005, the Federal Circuit Court of Appeals requested that Endo submit a response brief as part of its review process of Purdue s petition for rehearing and rehearing en banc. Endo submitted this response on August 1, 2005.

Table of Contents

On February 1, 2006, the Federal Circuit granted Purdue s motion for panel rehearing, vacated the June 7, 2005 decision of the district court, and remanded to the district court for further proceedings. The Federal Circuit s decision on rehearing directs the district court to give further consideration to its previous finding of unenforceability due to inequitable conduct. The Federal Circuit also affirmed the district court s finding that Endo s oxycodone extended-release tablets infringe the Purdue patents. Pursuant to a schedule set by the District Court, briefing on the issues of inequitable conduct left open on remand will be completed by June 26, 2006, after which the District Court may hear oral argument.

The company has reviewed the Federal Circuit Court s opinion with counsel and believes that, on remand, the District Court should again find that Purdue s patents are unenforceable due to Purdue s inequitable conduct before the U.S. Patent and Trademark Office. Endo does not currently intend to pursue an en banc rehearing of the Federal Circuit Court s opinion, but rather intends to pursue the remand proceedings in the District Court. In the event of a final, nonappealable adverse determination against it, the company would be required to terminate its sales of its bioequivalent version of OxyContin®. We can make no prediction as to how or when the District Court will rule on remand or whether Purdue will appeal again in the event we are successful on remand.

In the event that there is a final nonappealable judgment that Purdue s patents are valid and enforceable, Endo could face substantial liability for patent infringement and be obligated to pay Purdue damages in an amount to be determined by the District Court. Damages may be calculated based on profits that Purdue may have lost to Endo s sales of its generic OxyContin for the period the company sold the product, a reasonable royalty, and/or a variety of other legal theories, together with pre- or post-judgment interest on any such damages award. Although there can be no assurance, the company believes that it would be able to fund the payment of these damages without materially adversely affecting the operations of its business, including its acquisition and licensing strategy. The outcome of litigation is always uncertain, as are the imposition and level of damages. However, after consultation with counsel, the company believes that it is unlikely that Purdue would be awarded enhanced damages, such as treble damages.

On June 8, 2005, EPI filed a complaint against Purdue Pharma L.P., the Purdue Frederick Company, the Purdue Pharma Company, Ivax Corporation and Ivax Pharmaceuticals, Inc. (collectively, Defendants) in the Superior Court of the Judicial District of Norwalk-Stamford Connecticut, alleging a violation of the Connecticut Unfair Trade Practices Act. Specifically, EPI claimed that the Defendants have engaged in unfair trade practices by launching an authorized generic version of Purdue s OxyContin® on the heels of the Federal Circuit s ruling that Purdue obtained its patents on OxyContin® through inequitable conduct. EPI sought temporary and permanent injunctions enjoining Defendants from marketing or selling their authorized generic OxyContin® during Endo s 180-day market exclusivity period, as well as compensatory damages, punitive damages, and attorneys fees incurred in connection with the action. Defendants removed the case to the U.S. District Court for the District of Connecticut on July 1, 2005. In addition, Purdue filed a Motion to Dismiss, on July 1, 2005, and Ivax filed a Motion to Dismiss on July 8, 2005. EPI filed a Motion for Remand on August 5, 2005. On September 19, 2005, the District of Connecticut denied EPI s motion for remand. On the same date, EPI voluntarily dismissed the complaint without prejudice to refiling.

Litigation similar to that described above may also result from products we currently have in development, as well as those that we may develop in the future. We, however, cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against us.

Pricing Litigation

A number of cases, brought by local and state government entities, are pending that allege generally that EPI and numerous other pharmaceutical companies reported false pricing information in connection with certain drugs that are reimbursable under Medicaid. These cases generally seek damages, treble damages, disgorgement of profits, restitution and attorneys fees.

The federal court cases have been or are in the process of being consolidated in the United States District Court for the District of Massachusetts under the Multidistrict Litigation Rules as *In re: Pharmaceutical Industry Average Wholesale Price Litigation, MDL 1456*. The following previously reported cases are pending in MDL 1456 and have been consolidated into one consolidated complaint: *City of New York v. Abbott Laboratories, Inc., et al.*; *County of Albany v. Abbott Laboratories, Inc., et al.*; *County of Allegany v. Abbott Laboratories, Inc., et al.*; *County of Broome v. Abbott Laboratories, Inc., et al.*; *County of Cattaraugus v. Abbott Laboratories, Inc., et al*; *County of Cayuga v. Abbott Laboratories, Inc., et al.*; *County of Chautauqua v. Abbott Laboratories, Inc., et*

al.; *County of Chemung v. Abbott Laboratories, Inc., et al.*; *County of Chenango v. Abbott Laboratories, Inc., et al.*; *County of Columbia v. Abbott Laboratories, Inc., et al.*; *County of Cortland v. Abbott Laboratories, Inc., et al.*; *County of Dutchess v. Abbott Laboratories, Inc., et al.*; *County of Essex v. Abbott Laboratories, Inc., et al.*; *County of Fulton v. Abbott Laboratories, Inc., et al.*; *County of Genesee v. Abbott Laboratories, Inc., et al.*; *County of Greene v. Abbott Laboratories, Inc., et al.*; *County of Herkimer v. Abbott Laboratories, Inc., et al.*; *County of Jefferson v. Abbott Laboratories, Inc., et al.*; *County of Lewis v. Abbott Laboratories, Inc., et al.*; *County of Madison v. Abbott Laboratories, Inc., et al.*; *County of Monroe v. Abbott Laboratories, Inc., et al.*; *County of Niagara v. Abbott Laboratories, Inc., et al.*; *County of Oneida v. Abbott Laboratories, Inc., et al.*; *County of Onondaga v. Abbott Laboratories, Inc., et al.*; *County of Ontario v. Abbott Laboratories, Inc., et al.*; *County of Orleans v. Abbott Laboratories, Inc., et al.*; *County of Putnam v. Abbott Laboratories, Inc., et al.*; *County of Rensselaer v. Abbott Laboratories, Inc., et al.*; *County of Rockland v. Abbott Laboratories, Inc., et al.*; *County of St. Lawrence v. Abbott Laboratories, Inc., et al.*; *County of Saratoga v. Abbott Laboratories, Inc., et al.*; *County of Schuyler v. Abbott Laboratories, Inc., et al.*; *County of Seneca v. Abbott Laboratories, Inc., et al.*; *County of Steuben v. Abbott Laboratories, Inc., et al.*; *County of Suffolk v. Abbott Laboratories, Inc., et al.*; *County of Tompkins v. Abbott Laboratories, Inc., et al.*; *County of Ulster v. Abbott Laboratories, Inc., et al.*; *County of Warren v. Abbott Laboratories, Inc., et al.*; *County of Washington v. Abbott Laboratories, Inc., et al.*; *County of Wayne v. Abbott Laboratories, Inc., et al.*; *County of Westchester v. Abbott Laboratories, Inc., et al*; *County of Wyoming v. Abbott Laboratories, Inc., et al.*; and *County of Yates v. Abbott Laboratories, Inc., et al.*

One previously reported case is pending in the Supreme Court of the State of New York, Erie County: *County of Erie v. Abbott Laboratories, Inc., et al.*

There is a previously reported case pending in Circuit Court of Montgomery County, Alabama against EPI and numerous other pharmaceutical companies: *State of Alabama v. Abbott Laboratories, Inc., et al.*

There is a previously reported case pending in the Chancery Court of Hinds County, Mississippi against EPI and numerous other pharmaceutical companies: *State of Mississippi v. Abbott Laboratories, Inc., et al.*

The Company intends to contest all of these cases vigorously. Litigation similar to that described above may also be brought by other plaintiffs in various jurisdictions. However, we cannot predict the timing or outcome of any such litigation, or whether any such litigation will be brought against the Company.

Other Legal Proceedings

In addition to the above proceedings, we are involved in, or have been involved in, arbitrations or various other legal proceedings that arise from the normal course of our business. We cannot predict the timing or outcome of these claims and other proceedings. Currently, we are not involved in any arbitration and/or other legal proceeding that we expect to have a material effect on our business, financial condition, results of operations or cash flows.

11. Earnings Per Share

The following is a reconciliation of the numerator and denominator of basic and diluted earnings (loss) per share (in thousands, except per share data):

	Three Months Ended March 31,	
	2006	**2005**
Numerator:		
Net income available to common stockholders	$ 20,538	$ 13,815
Denominator:		
For basic per share data weighted average shares	132,877	131,871
Effect of dilutive stock options	913	958
For diluted per share data weighted average shares	133,790	132,829
Basic earnings per share	$ 0.15	$ 0.10
Diluted earnings per share	$ 0.15	$ 0.10

21

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

Except for the historical information contained in this Report, this Report, including the following discussion, contains forward-looking statements that involve risks and uncertainties. See Forward-Looking Statements beginning on page 3 of this Report.

Overview

We are a specialty pharmaceutical company with market leadership in pain management. We are engaged in the research, development, sale and marketing of branded and generic prescription pharmaceuticals used primarily to treat and manage pain. According to Wolters Kluwer Health data, the total U.S. market for pain management pharmaceuticals, excluding over-the-counter products, totaled $18.7 billion in 2005. This represents an approximately 6% compounded annual growth rate since 2001. Our primary area of focus within this market is analgesics and, specifically, opioid analgesics. In 2005, analgesics were the fourth most prescribed medication in the United States with over 246 million prescriptions written for this classification. Opioid analgesics is a segment that comprised approximately 89% of the analgesics prescriptions for 2005. Total U.S. sales for the opioid analgesic segment were $8.2 billion in 2005, representing a compounded annual growth rate of 10% since 2001.

We have a portfolio of branded products that includes established brand names such as Lidoderm®, Percocet®, Frova®, Percodan® and DepoDur®. Branded products comprised approximately 71% of our net sales in 2005, with 51% of our net sales coming from Lidoderm®. Our non-branded generic portfolio, which accounted for 29% of net sales in 2005, currently consists of products primarily focused in pain management, with our generic oxycodone extended-release tablets accounting for 14% of our net sales in 2005. We focus on selective generics that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing.

We have established research and development expertise in analgesics and devote significant resources to this effort so that we can maintain and develop our product pipeline. Our late-stage branded product pipeline includes two filed New Drug Applications, or NDAs, two products in Phase III clinical trials and three products in Phase II clinical trials.

We enhance our financial flexibility by outsourcing certain of our functions, including manufacturing. Currently, our primary suppliers of contract manufacturing services are Novartis Consumer Health, Inc. and Teikoku Seiyaku Co., Ltd.

Through a dedicated sales force of approximately 370 sales representatives in the United States, we market our branded pharmaceutical products to high-prescribing physicians in pain management, neurology, surgery, anesthesiology, oncology and primary care. Our sales force also targets retail pharmacies and other healthcare professionals throughout the United States.

On a continuous basis, we evaluate and, where appropriate, pursue acquisition opportunities on terms we consider favorable. In particular, we look to continue to enrich our product line by acquiring or licensing rights to additional products and compounds and therefore regularly evaluate selective acquisition and license opportunities. Such acquisitions or licenses may be carried out through the purchase of assets, joint ventures and licenses or by acquiring other companies. Currently, however, we have no binding commitment related to any acquisitions.

Our wholly owned subsidiary, Endo Pharmaceuticals Inc., commenced operations in 1997 by acquiring certain pharmaceutical products, related rights and assets of The DuPont Merck Pharmaceutical Company, which subsequently became DuPont Pharmaceuticals Company and was thereafter purchased by the Bristol Myers Squibb Pharma Company in 2001. Endo Pharmaceuticals Inc. was formed by some members of the then-existing management of DuPont Merck and an affiliate of Kelso & Company who were also parties to the purchase agreement, under which we acquired these initial assets. We were incorporated in Delaware as a holding company on November 18, 1997.

Recent Developments

On December 22, 2005, we filed the complete responses to the U.S. Food and Drug Administration s approvable letters on the company s New Drug Applications (NDAs) for each of its investigational products oxymorphone extended-release (oxymorphone ER) and immediate-release (oxymorphone IR) tablets. As previously disclosed on October 20, 2003, the FDA issued approvable letters for oxymorphone ER and IR tablets but had requested that we address certain questions and provide more clarification and information, including data from additional clinical trials to further confirm the safety and efficacy of these products. Under the Prescription Drug User Fee Act (PDUFA) guidelines, the FDA confirmed our six-month PDUFA date as June 22, 2006, which is the

Table of Contents

date on which we expect to receive action letters from the FDA on these filings. If approved, we expect to launch oxymorphone ER and IR in the second half of 2006. Oxymorphone ER would compete in the market for long-acting, strong opioids. In order to meet the FDA s October 2003 request for more clinical information for oxymorphone ER, we conducted two separate multi-center, randomized, double-blind, placebo-controlled, 12-week, parallel group trials evaluating this product in two distinct groups of patients with chronic low back pain: opioid-naive and opioid-experienced. These trials demonstrated statistically ($p<0.0001$) and clinically significant efficacy in these patient populations. The trial involving opioid-naive patients was conducted under the FDA s Special Protocol Assessment (SPA) process. We also reported that the complete response to the oxymorphone IR approvable letter included previously disclosed positive results for a placebo-controlled, multi-center Phase III trial for oxymorphone IR in the treatment of acute post-operative pain. Endo also conducted this study under the FDA s SPA process. The data from the two new oxymorphone ER Phase III studies and from the one oxymorphone IR Phase III study will supplement the previously submitted Phase III trials for both products that the company believes the FDA already has accepted as demonstrating efficacy in the intended patient populations.

On January 6, 2006, we announced the appointment of John J. Delucca to our Board of Directors. An independent, outside director, Mr. Delucca also has been appointed as the Chairman of the audit committee of the Board of Directors. He replaced Frank J. Loverro, a managing director of Kelso & Company, who had been a member of the Board since July 2000 and who resigned on January 6, 2006. Mr. Delucca, 62, was executive vice president and chief financial officer of the REL Consultancy Group until his retirement in 2004. Prior to that, he servelign="bottom" width="1%" style="TEXT-ALIGN: left"> 85,515 66,559 58,233

Net Assets -					
Under Canadian GAAP:	71,516	59,681	60,642	41,197	34,693
Under U.S. GAAP	32,032	28,473	29,611	10,506	4,790
Number of Common Shares issued	66,631,746	59,932,381	59,870,881	55,670,715	53,075,847

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

1

Currency and Exchange Rates

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

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

Dec-09 (nine months)	Mar-09	Mar-08	Mar-07	Mar-06
US$0.9034	US$0.8878	US$0.9688	US$0.8784	US$0.8379

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

Month	High (US$)	Low (US$)
March 2009	$ 0.8202	$ 0.7653
April 2009	$ 0.8421	$ 0.7870
May 2009	$ 0.9176	$ 0.8365
June 2009	$ 0.9269	$ 0.8591
July 2009	$ 0.9291	$ 0.8529
August 2009	$ 0.0937	$ 0.0899
September 2009	$ 0.9442	$ 0.9007
October 2009	$ 0.9755	$ 0.9123
November 2009	$ 0.9590	$ 0.9234
December 2009	$ 0.9647	$ 0.9304
January 2010	$ 0.9647	$ 0.9304
February 2010	$ 0.9642	$ 0.9283

On March 29, 2010, the noon buying rate in Canadian dollars as per the Bank of Canada (the "Exchange Rate") was $1 Canadian = US$0.9801.

B. Capitalization and indebtedness.

Not Applicable

C. Reasons for the offer and use of proceeds.

Not Applicable

D. Risk factors.

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

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

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

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

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

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

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

(d) The Company is in the exploration and development stage and may never become profitable.

The Company's properties are primarily in the feasibility study and permitting stage. Company mining operations may never become profitable. Drilling of the 5034, Hearne and Tuzo kimberlite pipes has been extensive and has now been completed. 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. Mine plans and processing concepts that have been developed are preliminary in nature.

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

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

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

The Company does not have the ability to pay for exploration or development costs on its other properties. If such funds were available, there is no assurance that expending such funds would result in discovery of any diamondiferous kimberlite.

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

The Company has a history of losses and is likely to continue to incur losses for the foreseeable future. During the fiscal nine month period ended December 31, 2009, and the fiscal years ended March 31, 2009 and 2008, the Company incurred net losses or earnings during each of the following periods:

- $1.458 million loss for the nine months ended December 31, 2009.
- $1.538 million net loss for the year ended March 31, 2009; and,
- $0.166 million net earnings for the year ended March 31, 2008.

As of December 31, 2009, the Company had an accumulated deficit of $28.9 million. There can be no assurance that the Company will ever be profitable.

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

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

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

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

As of December 31, 2009, the Company had cash and short-term investments of approximately $9.9 million and working capital of approximately $8.3 million. During the past three fiscal years ended December 31, 2009 (nine months), and March 31, 2009 and 2008, the Company used approximately $3.760 million in cash flows in operating activities including approximately $1.388 million during the nine months ended December 31, 2009, $1.142 million during the fiscal year ended March 31, 2009, and $1.230 million during the fiscal year ended March 31, 2008.

The Company's administrative and other expenses are expected to be approximately $1.7 million for the next year, in addition to an estimated $7 million for expenses for the Gahcho Kué joint venture for 2010, and possible repayments of historic sunk costs. The Company will be required to raise additional capital through equity and/or debt financings in the very near future on terms that may be dilutive to its shareholders' interests in the Company and 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. As well, there is no guarantee that the Company will be able to raise additional capital, or to raise additional capital on terms and conditions which it finds acceptable. If the Company is not able to raise sufficient capital, it may not be able to grow the Company, or it may be forced to cease doing business.

(j) The Company’s properties have no proven reserves.

The properties in which the Company has an interest are all in the advanced feasibility study 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.

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

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

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

The market for rough diamonds is subject to strong influence from demand in the United States, which is the largest market for polished diamonds, and supply from major producers such as Alrosa of Russia and Debswana of Botswana. The price of diamonds has historically fluctuated. The price of diamonds dropped sharply after September 11, 2001. Between 2003 and 2006 diamond prices increased on average by approximately 15%. In 2007, rough diamond prices increased by an average of 25%, and in the first five months of 2008, by a further 11%. From about mid-2008 to mid-April 2009, rough diamond prices fell sharply with concerns of the global economic environment of the time. Starting in mid-April 2009, rough diamond prices have started to rebound, tempered by concerns of consumer buying confidence and behaviour. Such fluctuations make it difficult to predict future diamond prices and, the Company's future results of operation may fluctuate significantly with rough diamond prices.

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

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

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

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

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

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

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

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

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

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

(p) Operating Hazards and Risks

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

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

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

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

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

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

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

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

The Company's current operations do not generate any cash flow. As the Company seeks additional equity financing, the issuance of additional shares will dilute the interests of the Company's current shareholders. The amount of the dilution would depend on the number of new shares issued and the price at which they are issued. The Company has raised funds in recent years through share, option and warrant issuances. As of December 31, 2009, the Company had cash and short-term investment of approximately $9.9 million and working capital of approximately $8.3 million. The Company is currently investigating various sources of additional liquidity to increase the cash balances required for ongoing operations over the foreseeable future. These additional sources include, but are not limited to, share offerings, private placements, credit facilities, and debt, as well as further possible exercises of outstanding options by directors and officers. There can be no assurance that the Company will be able to raise additional funds as needed, or that funds raised, if any, would be on terms and conditions acceptable to the Company. The Company's annual cash administrative operating costs, excluding the costs directly associated with the Gahcho Kué Project, are approximately $1.7 million.

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

As at March 29, 2010, there were 1,234,635 options outstanding with exercise prices ranging from $1.26 to $4.50 (expiring at various dates). There were 3,217,000 warrants outstanding with exercise prices ranging from $2.00 to $3.20, expiring between February 4, 2011, and June 8, 2011. The stock options and warrants, if fully exercised, would increase the number of shares outstanding by 4,451,635. Such options, if fully exercised, would constitute about 6.3% (out of 71,083,381 shares (66,631,746 issued and outstanding, plus total outstanding options and warrants)) of the Company's resulting share capital as at March 29, 2010. It is unlikely that outstanding options and warrants would be exercised unless the market price of the Company's common shares exceeds the exercise price at the date of exercise. The exercise of such options and the subsequent resale of such Common shares in the public market could adversely affect the prevailing market price and the Company's ability to raise equity capital in the future at a time and price which it deems appropriate. The Company may also enter into commitments in the future which would require the issuance of additional common shares and the Company may grant new share purchase warrants and stock options. Any share issuances from the Company's treasury will result in dilution to existing shareholders.

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

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

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

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

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

Prices for the Company's shares on the TSX and on the NYSE Amex, have been extremely volatile. The price for the Company's common shares on the TSX ranged from $0.86 (low) and $3.07 (high) during the nine-month fiscal period ended December 31, 2009, and from $0.75 (low) to $5.05 (high) during the nine-month fiscal period ended March 31, 2009. The price on the NYSE Amex ranged from $0.69 US (low) and $2.90 US (high) during the nine-month fiscal period ended December 31, 2009, and from $0.58 US (low) to $4.95 US (high) during the fiscal year ended March 31, 2009. Any investment in the Company's securities is therefore subject to considerable fluctuations in value.

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

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

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

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

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

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

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

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

(cc) The Company's common stock may be delisted from NYSE Amex, and if this occurs, shareholders may have difficulty converting their investment into cash efficiently.

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

Item 4. Information on the Company

A. History and development of the company.

The Corporate Organization

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

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

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

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

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

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

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

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

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

Mountain Glen was voluntarily dissolved on August 4, 2004.

Pursuant to the repeal of the British Columbia Company Act and its replacement by the British Columbia Business Corporations Act (the "New Act"), the Company transitioned to the New Act and adopted new Articles of Incorporation. On September 20, 2005, the Company's shareholders approved a special resolution for the continuance of the Company into Ontario, and the Company amended its articles and continued incorporation under the 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	Juridiction of Incorporation
Baltic Minerals BV	January 26, 1996	The Netherlands
Baltic Minerals Finland OY	May 18, 1994	Finland
Camphor Ventures Inc.	May 9, 1986 (as Sierra Madre Resources Inc.)	British Columbia, Canada

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

10

The Company's registered, records, administrative, and executive office is at 401 Bay Street, Suite 2700, PO Box 152, Toronto, Ontario, Canada M5H 2Y4, 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 NYSE Amex (formerly Amex) under the symbol “MDM”. Prior to April 4, 2005, the Company's shares traded on the OTCBB under the symbol "MPVI". The Company is also registered extra-provincially in the Northwest Territories, and is a reporting issuer in British Columbia, Ontario and Alberta. The Company files reports in the United States pursuant to Section 13 of the Securities Exchange Act.

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

Principal Capital Expenditures and Divestitures

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

Takeover offers

There were no public takeover offers by third parties in respect of the 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 was not considered to be a property that was material to the Company. On October 4, 2004, the Company agreed to exchange the Company's 30% interest in the Haveri Gold Property for 4,000,000 common shares of Northern Lion Gold Corp. The shares were subject to a two-year hold period and there were volume restrictions on re-sale thereafter. The 4,000,000 common shares of Northern Lion Gold Corp. were sold in July 2007.

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

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

B. Business overview.

1.1 Introduction

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

The Company, as yet, does not have any commercially viable resource properties. Bulk sampling and drilling on the AK Property is complete, and the AK Property is now in the feasibility study and permitting stage. There are no revenues from the Company's natural resource properties.

1.2 Historical Corporate Development

AK-CJ Properties, and the Gahcho Kué Project

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

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

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

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

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

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

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

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

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

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

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

During 2002, the Company concluded a new joint venture agreement (the "Gahcho Kué Joint Venture Agreement") among Mountain Province Diamonds Inc., Camphor Ventures Inc., and De Beers Canada Exploration Inc. (now De Beers Canada Inc.). This agreement provided that De Beers Canada could have earned up to a 55% interest in the project by funding and completing a positive definitive feasibility study. The agreement also provided that De Beers Canada could have earned up to a 60% interest in the project by funding development and construction of a commercial-scale mine.

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

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

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

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

Other Properties

As of June 30, 2000, the Company completed the Arrangement, an 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 Ketza 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".

Acquisition of Camphor Ventures Inc.

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

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

Foreign Assets

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

Government Regulation

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

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

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

The Company's operations 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 development 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.

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

C. Organizational structure.

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

D. Property, plants and equipment.

Principal Properties

In this section on "Principal Properties", the reader should note that where disclosures pertaining to mineral resources are made, these are not mineral reserves and do not have demonstrated economic viability. The Company has only one principal property, the AK Property also known as the Gahcho Kué Project, which is located in the Canada’s Northwest Territories. The Gahcho Kué Project is in the feasibility study and permitting stage, and there are no reserve estimates for this property at this time.

A "mineral resource" as defined under the Canadian Institute of Mining, Metallurgy and Petroleum Definition Standards for Mineral Resource and Mineral Reserves (the "CIM Definition Standards"), which are different from the U.S. Securities and Exchange Commission (“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 CIM Definition Standards as required by Canadian law for disclosure of material facts. The CIM Definition Standards differ from those adopted by the SEC in its Industry Guideline No.7. See “Glossary of Technical Terms” in this Report.

It should be noted that the SEC Guidelines define "reserve" to mean "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination". No such reserves, as defined in the SEC Guidelines or as defined in the CIM Definition Standards, have been determined to exist at the present time.

Description of Property

Administrative Offices

The Company's administrative office is located at 401 Bay Street, Suite 2700, PO Box 152, Toronto, Ontario, Canada M5H 2Y4. The Company considers these premises suitable for its current needs.

Mineral Properties

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

Amended and Restated Joint Venture Agreement

Under the agreement with De Beers Canada in effect at March 31, 2009, the Company was not responsible for funding the Project, and De Beers Canada had no recourse to the Company for repayment of funds until, and unless, the Project is built, in production, and generating net cash flows.

On July 3, 2009, the Company entered into a revised and restated joint venture agreement (the “2009 Agreement”) with De Beers Canada (jointly, the “Participants”) with respect to the Gahcho Kué Project that replaces the previous agreement (the “2002 Agreement”) entered into by the Participants. Under the 2009 Agreement:

1. The Participants’ continuing interests in the Gahcho Kué Project will be Mountain Province 49% and De Beers Canada 51%, with Mountain Province’s interest no longer subject to the dilution provisions in the 2002 Agreement except for normal dilution provisions which are applicable to both Participants;
2. Each Participant will market their own proportionate share of diamond production in accordance with their participating interest;
3. Each Participant will contribute their proportionate share to the future project development costs;
4. Material strategic and operating decisions will be made by consensus of the Participants as long as each Participant has a participating interest of 40% or more;
5. The Participants have agreed that the sunk historic costs to the period ending on December 31, 2008 will be reduced and limited to $120 million;
6. Mountain Province will repay De Beers Canada $59 million (representing 49% of an agreed sum of $120 million) in settlement of the Company’s share of the agreed historic sunk costs on the following schedule:

- $200,000 on execution of the 2009 Agreement (Mountain Province’s contribution to the 2009 Joint Venture expenses to date of execution of the 2009 Agreement);
- Up to $5.1 million in respect of De Beers Canada’s share of the costs of a feasibility study to be commissioned as soon as possible;
- $10 million upon the earlier of the completion of a feasibility study with a 15% IRR and/or a decision to build;
- $10 million following the issuance of the construction and operating permits;
- $10 million following the commencement of commercial production; and
- The balance within 18 months following commencement of commercial production;

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

Extracts from Technical Report

Unless otherwise stated, the technical information in this section from the sub-headings Property Settings to AMEC Recommendations is based upon Independent Qualified Person's Technical Report dated as of April 20, 2009 (the "Technical Report") entitled "Gahcho Kué Kimberlite Project NI 43-101 Technical Report, Northwest Territories, Canada" prepared for the Company by AMEC Americas Limited by Ken Brisebois, P.Eng., Dr. Ted Eggleston, P.Geo., and Alexandra Kozak, P.Eng. The Technical Report was included as Exhibit 14.1 of the March 31, 2009 Form 20-F report filed on June 26, 2009 on EDGAR It was also filed with the relevant Securities Commissions in Canada on the System for Electronic Document Analysis and Retrieval (“SEDAR”) on June 12, 2009. Portions of the following information are based on assumptions, qualifications and procedures which are not fully described herein. Reference should be made to the full text of the Technical Report.

Property Setting

The Gahcho Kué Project is located at the informally-named Kennady Lake, approximately 300 km east-northeast of Yellowknife in the District of Mackenzie, Northwest Territories (NWT), Canada. The property lies on the edge of the continuous permafrost zone in an area known as the “barren lands”. This terrain is characterized by low heath and tundra, with occasional knolls, bedrock outcrops, and localized surface depressions interspersed with lakes. Topographic elevations within the property range between 400 masl to 450 masl. The climate in the Gahcho Kué area is classified as sub-arctic, as the site is located immediately north of the tree line. Winters are long and cold, and summers are short and generally cool. The dominant flora is scrub birch-Labrador tea tundra and scrub birch-cloudberry. Fauna includes red fox, arctic fox, sic sic (small spotted squirrel), grizzly bear, wolf and caribou (during annual migration), ptarmigan, abundant migratory bird life in summer, and clouds of mosquitoes and black flies during the height of the summer months (mid-June to mid-August).

Access to the Project is via float-equipped airplanes landing on the lake during the ice-free summer season and conventional or ski-equipped airplanes landing on an ice airstrip during the winter. In the shoulder seasons access is either direct using a helicopter or via a 1,000 foot long airstrip marked out on a relatively flat esker, approximately 26 km north of the Gahcho Kué camp. A helicopter transports people and goods between the esker and camp during these periods. Flight time from Yellowknife is about 1 hour and 20 minutes by Twin Otter. During the 1999, 2001, 2002, and 2006 winters, a permitted 120 km winter ice road was constructed connecting the Property with the main Tibbit-Contwoyto winter ice road, which supported shipments of fuel, heavy equipment, and construction materials.

Tenure and Agreements

The Project falls within four mining leases of 21-year tenure held. The mining leases are 100% owned by De Beers Canada Inc. (De Beers Canada), which holds them on behalf of the Gahcho Kué Joint Venture. The participating interest of each of the joint venture parties is governed by the 2009 Gahcho Kué Joint Venture Agreement, which superseded the 2002 Gahcho Kué Joint Venture Agreement. The 2002 Gahcho Kué Joint Venture Agreement is registered against the mineral leases. (The Operator is in the process of registering the 2009 Gahcho Kué Joint Venture Agreement against the mineral leases). The 2009 Gahcho Kué Joint Venture Agreement provides for De Beers Canada's participating interest to be 51% and MPV's interest (including Camphor's) being 49% of the Project.

Leases are maintained by annual payments to the Department of Indian and Northern Affairs at C$1 per acre, increasing to C$2 per acre upon renewal to a second 21-year term. The total area under the lease is 4,189.72 ha (10,353 acres).

Mining tenure held by De Beers on behalf of the Joint Venture is valid and sufficient to support Mineral Resources. De Beers has taken appropriate steps to insure extension of the leases, which will remain valid until July 15, 2023 because of expenditures on the property to date. Surface rights have not yet been acquired, and can be obtained by application to the Crown.

At this time, all of the permits required for exploration are in force. During those periods when exploration was active, the work was conducted under the appropriate permits.

Permits required for exploitation were identified, and the process for obtaining those permits was defined.

Previous Work

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

De Beers became the operator of the property via a joint-venture agreement in 1997. Additional kimberlites, including Tesla, Hearne, and Tuzo were discovered the same year.

Inferred and Indicated Mineral Resources were disclosed for the first time in 2003 using CIM definitions with a supporting technical report filed on SEDAR on July 17, 2003. Information contained in the July 2003 technical report is superseded by the April 20, 2009 Technical Report, and should not be relied upon. Since 2003, there have been material changes to scientific and technical information, including additional diamond and geotechnical drilling, conceptual open pit and underground design work, supplementary metallurgical testing, and optimization studies as set forth in the April 20, 2009 Technical Report.

Geology and Mineralization

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

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

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

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

AMEC determined that the geological understanding of the deposit setting, lithologies, and kimberlite type distributions was adequate to support Mineral Resource estimation. Understanding of diamond distributions within each kimberlite type were sufficient to support Mineral Resource estimation.

As well, AMEC assessed that the style of mineralization was sufficiently understood to support Mineral Resource estimation.

Drilling and Sampling

The property was the subject of several drilling campaigns since the initial work by Canamera Geological Ltd. in January 1995. In 1995, small diameter core drilling (47.6 mm NQ core) by Canamera Geological Ltd. discovered the 5034 kimberlite during drilling of geophysical anomalies at the head of a kimberlitic indicator mineral dispersion train.

Since then, small-diameter NQ core drilling was used extensively to test geophysical and kimberlite indicator mineral dispersion-train targets peripheral to the 5034 cluster (Tuzo and Hearne were discovered in 1997), as well as to delineate the shape of the kimberlite bodies and to provide data (including micro-diamonds) for geological and Mineral Resource modelling.

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

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

5034

Canamera Geological Ltd's. 1995 and 1996 drilling of the 5034 kimberlite comprised 69 NQ core holes to obtain geological and pipe volume data and 43 PQ core holes to obtain macro-diamonds for a preliminary estimate of diamond grade. An additional 11 NQ core holes and 17 RC holes of various sizes were drilled by the Project between 1998 and 2002. Mini-bulk sampling conducted between 1998 and 2002 to determine diamond grade and revenue has included 140 mm (5.5-inch) diameter drill holes in 1998, 311 mm (12.25-inch) diameter drill holes in 1999, and 610 mm (24-inch) diameter holes that were drilled in 2001 and 2002. The 1998 and 1999 drilling focused on the 5034 West, Centre and East lobes; in 2001 the East Lobe and the west neck of the Centre Lobe were drilled; in 2002 work focused on the narrow corridor drilled previously in 1999 through the West and Centre lobes. There was one delineation NQ core hole drilled by GKJV at 5034 in 2003.

In 2004, 13 core holes drilled into the 5034 kimberlite as part of pit geotechnical, hydrogeology, and ore dressing studies (ODS). In 2005, a single core hole for hydrogeology studies drilled through the East Lobe of 5034, and two core holes were drilled at the North Lobe of 5034 to provide additional geological data. A substantial core program followed this in 2006 that comprised 11 HQ core holes for pit geotechnical, pipe volume delineation, and geological investigations. The last campaign of core drilling was conducted in 2007 with five HQ core holes being drilled to provide geological data from the 5034 East Lobe and 5 LDC holes (149 mm, 5.875-inch) drilled into the 5034 North Lobe to obtain a small parcel of macro-diamonds for comparative purposes.

Hearne

A total of 25 core holes were drilled in and around the Hearne kimberlite by GKJV during 1997-2003:

- 17 in Hearne North
- 6 in Hearne South (1 that intersected both pipes)
- 2 of which did not intersect kimberlite.

In 1998, 19 LDD holes (140 mm diameter) were drilled into the Hearne kimberlite to test the diamond grade:

- 16 were located at Hearne North
- 1 in Hearne South
- 2 holes intersected only granite.

In 1999, 8 LDD (311 mm diameter) holes were drilled into Hearne North and 2 into Hearne South to obtain macro-diamonds for initial revenue estimation. In 2001, 3 LDD (610 mm diameter) holes were drilled into the northern half of Hearne North, and 5 more LDD (610 mm diameter) holes tested Hearne North in 2002, to increase the parcel of macro-diamonds available for revenue estimation.

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

Tuzo

Between 1997 and 1999, 8 NQ core holes were drilled into Tuzo. All of these were angle holes collared outside the kimberlite body and drilled into, and sometimes through, the kimberlite. In 2002, 7 vertical HQ core holes were drilled into the pipe. LDD mini-bulk sample drilling took place in 1998 and 1999. Drilling to a maximum depth of 166 m, 17 LDD holes (140 mm diameter) were completed in 1998, and an additional 11 LDD holes (311 mm diameter) were completed in 1999 to a maximum depth of 300 m.

In 2004, 2 HQ core holes were drilled at Tuzo as part of a pit geotechnical study. This was followed by an 11-hole HQ core program in 2006 to provide pipe delineation and geological data. In 2007, a grid of 27 HQ core holes was completed to provide additional geological and pipe volume delineation data. The final resource drilling at Tuzo was an LDD mini-bulk sample program conducted in 2008 with 9 holes (610 mm) completed to provide additional macro-diamonds for diamond revenue estimation.

AMEC's Assessment

Exploration programs completed to date were assessed by AMEC to be appropriate to the style of mineralization and adequate to support Mineral Resource estimation. Drill hole types and orientations were appropriate for the type of mineralization. Small-diameter core holes defined the limits of the kimberlite bodies. Large-diameter core and reverse circulation drilling provided mini-bulk samples of kimberlite material for macro-diamond extraction. Micro-diamonds extracted from the small-diameter cores drilled to define the limits of the deposit. Three diamond breakage studies indicated that breakage was about 10-15% that is typical for this type of drilling program. The diamond parcels obtained in 2007-2008 were not evaluated for diamond breakage.

AMEC also assessed that the sampling and sample lengths were appropriate for the type of mineralization. Core sample lengths were somewhat variable during the early years of the Project. Later in the Project, core sample lengths were standardized at 12 m. These standardized samples provided most of the data used for the Mineral Resource estimates reported in the Gahcho Kué Kimberlite Project NI 43-101 Technical Report dated April 20, 2009.

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

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

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

Data Verification

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

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

Resource evaluation data base verification included:

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

Metallurgical Testwork

AMEC determined that metallurgical testwork was appropriate for the stage of the project and was adequate to support Mineral Resource estimation. Mini-bulk samples were processed using scaled-down equipment that allows collection of some of the processing parameters. Other parameters were obtained from core specifically drilled for that purpose.

Mineral Resource Statement

Large diameter reverse-flood drilling ("LDD") provided samples of kimberlite for grade and diamond value modelling. Macro-diamonds from the LDD were used to estimate local grades on 5034 West and Centre Lobes and Hearne Pipe. Grade estimations for these pipes were completed using variography and kriging methods. Diamonds from this drilling were also used to confirm diamond size and value data for all lobes and pipes.

Micro-diamonds from drill core were used to create local estimates of grade for the 5034 North-East Lobe and Tuzo Pipe. Micro-diamonds are stones (less than 0.5 mm) recovered from the dissolution of drill core using a caustic fusion process. These results were kriged into local blocks (25 m x 25 m x 12 m) and then converted to carats per hundred tonnes above a commercial bottom cut-off using a model of grade with size developed from micro and macro diamonds.

Density modelling was completed using dry densities. Density was estimated per Lobe for 5034 West and Centre, locally into mining blocks for the 5034 North-East Lobe and Tuzo, and by rock type for Hearne Pipe.
Industry-standard techniques were used to ensure appropriate calculation and reporting of the diamond resources at a +1 mm lower cut-off. The Mineral Resources were adjusted for the expected main treatment plant response by reducing recoveries in the lower size classes.

AMEC had access to two sources of diamond valuations. One valuation was from the Diamond Trading Company ("DTC"). WWW Diamond Consultants International ("WWW") performed the second for MPV. In the Gahcho Kué Kimberlite Project NI 43-101 Technical Report, AMEC relied on both valuations and the Qualified Persons believed that it was appropriate to rely on both sources. WWW are recognized international leaders in this field and are the valuers to the Federal Government of Canada for the Canadian diamond mines in the Northwest Territories. The DTC is the internal qualified group that performs valuations for DeBeers operations, the recognized originator of the methods in use by all valuators, and the rough diamond distribution arm of the De Beers Family of Companies. In addition, they are the world's largest supplier of rough diamonds, handling nearly half of the world's supply by value.

To assess reasonable prospects for economic extraction to support declaration of a Mineral Resource, diamond valuations from the De Beers Group (project operator) and WWW were analysed, and average mid-2008 pricing with a 20% increase was applied to the resource blocks. It is common practice in the industry to assume a higher long-term commodity price when determining a cut-off grade for Mineral Resources than the long-term commodity price used for mineral reserves or financial analysis.

Most of the Mineral Resources were shown to be amenable to open-pit mining. The relatively small amount of remaining material lying outside of the resource pit shell was, at least conceptually, shown to have reasonable prospects of economic extraction using underground mining methods. Further study is required to determine economic viability of the material amenable to underground mining methods. Average diamond pricing was only used to assess reasonable prospects of economic extraction to support declaration of Mineral Resources.

Table 1-1 summarizes the Mineral Resource estimate. The Qualified Person for the estimate is Ken Brisebois, P.Eng., an AMEC employee. In this case, AMEC has elected to report the resources at a zero cut-off grade, deeming that the kimberlite contacts can be considered to be the potentially mineable boundaries. Mountain Province Diamonds Inc. and AMEC caution that Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability.

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

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

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

Table 1-1: Gahcho Kué 2009 Mineral Resource Summary
at 1.0 mm Bottom Cut-Off (Effective Date April 20, 2009)

Resource	Classification	Volume (Mm3)	Tonnes (Mt)	Carats (Mct)	Grade (cpht)
5034	Indicated	5.1	12.7	23.9	188
	Inferred	0.3	0.8	1.2	150
Hearne	Indicated	2.3	5.3	11.9	223
	Inferred	0.7	1.6	2.9	180
Tuzo	Indicated	5.1	12.2	14.8	121
	Inferred	1.5	3.5	6.2	175
Summary	Indicated	12.4	30.2	50.5	167
	Inferred	2.5	6.0	10.3	173

Notes:
1) Mineral Resources are reported at a bottom cut-off of 1.0 mm; cpht = carats per hundred tonnes.
2) Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability
3) Volume, tonnes, and carats are rounded to the nearest 100,000
4) Tuzo volumes and tonnes exclude 0.6 Mt of a granite raft
5) Diamond price assumptions used to assess reasonable prospects of economic extraction reflect mid-2008 pricebooks with a 20% increase factor. The prices assumed, on a per pipe basis (in US$), equate to $113/ct for 5034, $76/ct for Hearne and $70/ct for Tuzo.

AMEC's Recommendations

In the Gahcho Kué Kimberlite Project NI 43-101 Technical Report, AMEC concluded that the scientific and technical data on the Gahcho Kué Project is of sufficient quality and level of detail to support a feasibility study, if a decision is made by the Project partners to proceed to a feasibility study. AMEC recommended that the Project partners monitor market conditions to determine when such a decision would be appropriate.

GAHCHO KUÉ PROJECT LOCATION MAP (2007)

25

Gahcho Kué Project and Mountain Province Diamonds Claims

Mountain Province (outside of the Joint Venture with De Beers) has the following five claims with their respective claim numbers - AK 81, AK 84, AK 85, AK 86 and AK 93. These five claims represent about 12,555 acres. These claims are not part of the 2009 Gahcho Kué Joint Venture Agreement with De Beers Canada and are not considered part of the Gahcho Kué Project.

MAP - LOCATION OF PIPES

Information Prepared by the Company

The following information is prepared by the Company. The Company has issued press releases commenting upon recent results and activities for the Gahcho Kué Project. Such disclosure has been reviewed by Carl G. Verley, P.Geo. who serves as the Qualified Person in relation to such disclosure.

27

2008 Independent Diamond Valuation

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

On November 17, 2008, the Company announced the results of an independent valuation of the diamonds recovered from the Gahcho Kué Project during the exploration phase. The valuation was conducted by WWW International Diamond Consultants Ltd. at the London offices of the Diamond Trading Company on September 22 and 23, 2008. Subsequent to the valuation, WWW has revised its Price Book and all diamond values presented below are based on the WWW Price Book as at October 13, 2008.

The independent diamond valution resulted in a 63% increase in the actual price of the Gahcho Kué diamonds to US$135 per carat, on a statistically more robust sample and with rising rough diamond prices compared to the Company's last independent valuation of a smaller and less representative diamond parcel in 2006.

Table 1-2 below reflects the actual price per carat for the parcel of 8,195.17 carats of diamonds recovered from the Gahcho Kué Project.

Table 1-2: Actual Price (US$/carat)

Kimberlite	Carats	US$/carat	US Dollars
5034	3,133.02	122	381,080
Tuzo	2,155.70	252	542,431
Hearne	2,906.45	62	179,032
Total	8,195.17	135	1,102,543

Table 1-3 below presents models of the average price per carat (US$/carat) for each kimberlite lithology. The modeled price per carat is determined using statistical methods to estimate the average value of diamonds that will be recovered from potential future production from Gahcho Kué.

Table 1-3: Models of Average Price (US$/carat)

Kimberlite	Model Price ($/carat)	Minimum Price ($/carat)	High Price ($/carat)
5034 NE Lobe	120	108	145
5034 Centre	112	102	133
5034 West	124	112	149
Tuzo Other	88	80	107
Tuzo TK TK1	102	91	126
Tuzo TK	70	64	83
Hearne	73	67	86

(+1.50mm bottom cut-off)

In their report to Mountain Province, WWW stated: "The Tuzo sample and the 5034 East sample both contained one high value large stone. For Tuzo there was a 25.14 carat stone valued at $17,000 per carat and 5034 East had a 9.90 carat stone valued at $15,000 per carat. It is encouraging that such high value stones were recovered in such small samples of this size. If they are found in the same frequency throughout the resource then the modelled APs [Average Prices's] will certainly be towards the "high" values [highlighted in the right column of Table 1-3 above]."

The WWW Price Book as at October 13, 2008 reflected a significant write down reflective of the impact of the global recesion on rough diamond prices. Rough dimaonds prices continued to deteriorate through to early 2009 after which they began to recover. The long-term supply/demand fundamentals, in WWW's opinion, highlights that a shortage of rough diamond supply will still prevail, but be deferred given the sudden drop in demand reflecting the current global economic situation, which has depressed all commodity prices in the short term. In fact, the current market difficulties will inevitably take out considerable rough diamond supply capacity in the short term, but may well work in favour of a new mine coming on stream at Gahcho Kué in several years time.

Feasibility Study

On September 1, 2009, the Company announced that the the Gahcho Kué Joint Venture had appointed JDS Energy and Mining Inc. ("JDS"), an independent engineering firm, to produce a NI 43-101 definitive feasibility study for the Gahcho Kué Project. The Feasibility Study is expected to take approximately twelve months to complete with a budget of approximately $10 million.

Permitting

In November 2005, De Beers Canada, as operator of the Gahcho Kué Project, applied to the Mackenzie Valley Land and Water Board for a Land Use Permit and Water License to undertake the eventual development of the Gahcho Kué diamond mine. On December 22, 2005, Environment Canada referred the applications to the Mackenzie Valley Environmental Impact Review Board ("MVEIRB"), which commenced an Environmental Assessment ("EA"). On June 12, 2006, the MVEIRB ordered that an Environment Impact Review ("EIR") of the applications should be conducted.

In July 2006, De Beers Canada filed an application for a judicial review of the referral. De Beers Canada brought the application for judicial review of the MVEIRB decision to the Supreme Court of the NWT. On April 2, 2007, the Supreme Court of the Northwest Territories dismissed De Beers Canada's application and upheld the decision by the MVEIRB.

Following the decision of the Supreme Court of the NWT, the MVIERB commenced the EIR. The MVEIRB published draft Terms of Reference and a draft Work Plan for the Gahcho Kué Project in June 2007, and called for comments from interested parties by July 11, 2007. The EIR is designed to identify all of the key environmental issues that will be impacted by the eventual development of the Gahcho Kué diamond mine and to facilitate participation by key stakeholders in addressing these issues. The draft Work Plan anticipated that the EIR of the Gahcho Kué Project would have been completed by mid-2009, although the MVEIRB emphasized that the dates reported are target dates only, and the schedule is subject to change.

On December 17, 2007, the Company announced that the MVEIRB published the final terms of reference for the Gahcho Kué Environment Impact Statement ("EIS") on October 5, 2007. On May 9, 2008, the project operator, De Beers, advised the MVEIRB that the Joint Venture deferred the filing of the EIS.

In view of the proposed definitive feasibility study, the results of which are expected to impact on the final project description, the Project Operator, De Beers Canada, advised the MVEIRB that submission of the Gahcho Kué Environmental Impact Statement will be deferred pending the completion of an updated project description. The completion of the EIS is in process and is expected to be filed by mid-2010.

Project Costs to Date

The 2009 Joint Venture Agreement contains the following key terms with respect to the Project Costs:

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

- $200,000 on execution of the 2009 Joint Venture Agreement (Mountain Province's contribution to the 2009 Joint Venture expenses to date of execution of the 2009 Agreement);
- Up to $5.1 million in respect of De Beers Canada's share of the costs of the feasibility study commissioned in August 2009;
- $10 million upon the earlier of the completion of a feasibility study with a 15% IRR and/or a decision to build;
- $10 million following the issuance of the construction and operating permits;
- $10 million following the commencement of commercial production; and
- The balance within 18 months following commencement of commercial production;

The following table outlines the Project costs to date:

Period of Time	Amount (1)
Agreed historic sunk costs to December 31, 2008	$ 120,000,000
Agreed expenses January 1, 2009 to December 31, 2009	1,654,383
Costs for Feasibility Study from August 2009 to December 2009 (of approved budget of $10,000,000)	2,531,056
Total Costs to December 31, 2009	$ 124,185,439
Approved Budget January 1, 2010 to December 31, 2010	$ 13,674,016

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.

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

None.

Item 5. Operating and Financial Review and Prospects

A. Operating results.

The following discussion of the financial condition and operating results of the Company should be read in conjunction with the consolidated financial statements and related notes to the financial statements which have been prepared in accordance with 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 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 9 to the consolidated financial statements.

Fiscal Period ended December 31, 2009 compared to Fiscal Year ended March 31, 2009

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

The Company’s net loss for the nine months ended December 31, 2009 was $1,458,338, or $0.02 per share, compared with a net income of $1,537,590, or $0.03 per share for the twelve months ended March 31, 2009. Before the Company’s tax recovery of $509,686 (March 31, 2009 - $222,796), the net loss was $1,968,024 (March 31, 2009 - $1,760,386) for the nine months ended December 31, 2009.

The net loss for the nine months ended December 31, 2009 includes stock-based compensation expense of $268,405 compared to stock-based compensation expense for the twelve months ended March 31, 2009 of $574,200. The options were granted in August 2009 to an officer of the Company, and vested with the approval of the amended Company Stock Option Plan by the shareholders at the annual and general meeting on September 10, 2009, and the receipt of regulatory approval of the amended Company Stock Option Plan in October 2009. They were granted for a five-year term.

The net loss for the nine months ended December 31, 2009 also includes the Company’s proportional share of expenses of the Gahcho Kué joint venture in the amount of $210,789. On July 3, 2009, as discussed under the section titled “Overall Performance”, the Company entered into an amended and restated joint venture agreement with De Beers Canada Inc. relating to the Gahcho Kué joint venture. With the execution of the amended and restated joint venture agreement, the Company proportionately consolidates the assets, liabilities, revenues and expenses of the Gahcho Kué joint venture.

Operating expenses, excluding stock-based compensation and the expenses associated with the joint venture, totaled $1,500,795 for the nine months ended December 31, 2009 compared to $1,222,968 for the twelve months ended March 31, 2009. The most significant increase in the operating expenses is in Professional fees, which includes incremental legal and accounting fees associated with the amended and restated joint venture agreement. Professional fees increased from $185,011 for the year ended March 31, 2009 to $350,994 for the nine months ended December 31, 2009. Promotion and investor relations increased to $154,029 at December 31, 2009 from $82,816 as a result of increased marketing of the Company. Office and administration and salary and benefits increased from prior year as a result of capital and payroll taxes for prior year’s not previously recorded by the Company.

Fiscal Year ended March 31, 2009 compared to Fiscal Year ended March 31, 2008

The Company’s net loss for the year ended March 31, 2009 was $1,537,590, or $0.03 per share, compared with a net income of $165,531 for the year ended March 31, 2008. Before the Company’s tax recovery of $222,796 (2008 - $222,166), the net loss was $1,760,386 (2008 - $56,635) for March 31, 2009.

The net loss for the year ended March 31, 2009 includes stock-based compensation expense of $574,200 compared to no stock-based compensation expense for the year ended March 31, 2008. The options were granted in November 2008, and each vested immediately, and was granted for a five-year term. The net income for the year ended March 31, 2008 includes the Company’s gain on sale of its 4,000,000 common shares of Northern Lion of $1,075,420. Without the gain on sale for the year ended March 31, 2008, the Company had a net loss for the year (before tax recovery) of $1,132,055, or $0.02 per share.

Operating expenses, excluding stock-based compensation, totaled $1,222,968 for the year ended March 31, 2009 compared to $1,194,210 for the prior year. The largest component of these operating expenses was consulting fees, which were $639,987 for the year ended March 31, 2009 compared to $474,704 for the prior year. Consulting fees primarily relate to technical consulting and the fees paid to management, as well as other corporate consulting.

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 $8,315,371 at December 31, 2009 ($206,261 as at March 31, 2009), and cash and short-term investment of $9,942,277 ($297,346 at March 31, 2009). The short-term investments are guaranteed investment certificates held with a major Canadian financial institution, and the Company considers there to be no risk associated with the bank's creditworthiness.

The Company had no long-term debt at December 31, 2009, other than its contribution payable for the joint venture with De Beers - which is contingent on certain events occurring such a decision to build the mine, receipt of permits, and production. (See "Overall Performance" section above). The Company had no long-term debt at March 31, 2009.

Since June 30, 2008, global economic conditions and financial markets experienced significant weakness and volatility with indications of strength and stabilization in the last nine months.

The Company has incurred losses in the year ended December 31, 2009 amounting to $1,458,338, incurred negative cash flows from operations of $1,387,511, and will be required to obtain additional sources of financing to complete its business plans going into the future. With approximately $9,942,300 of cash on hand and short-term investments at December 31, 2009, the Company has sufficient capital to finance its operations and the company's costs of the Gahcho Kué Project until approximately June 2010. The Company is currently investigating various sources of additional liquidity to increase the cash balances required for ongoing operations over the foreseeable future. These sources include, but are not limited to, share offerings, private placements, credit facilities, and debt, as well as further possible exercises of outstanding options by directors and officers, and possible exercises of warrants by warrant holders. However, there is no certainty that the Company will be able to obtain financing from any of those sources. As a result, there is substantial doubt as to the Company's ability to continue as a going concern.

The Company's consolidated annual financial statements are prepared on a going concern basis and do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

On August 4, 2009, the Company announced that it had completed a non-brokered private placement. An aggregate of 3,000,000 Units of the Company have been issued at a price of $1.50 per Unit for aggregate gross proceeds of $4.5 million. Each Unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $2.00 for a period of 18 months. Net proceeds from the private placement are being used to support the development of the Gahcho Kué diamond project, and for general corporate purposes.

On December 8, 2009, the Company announced that it had closed its bought deal financing (the "Offering") under which the Company issued 3,334,000 units ("Units") in consideration for $2.70 per Unit to raise gross proceeds of $9,001,800. Each Unit consists of one common share and one-half of a common share purchase warrant), with each whole warrant entitling the holder to acquire one additional common share at an exercise price of C$3.20 per common share for a period of 18 months.. The Offering was co-led by Paradigm Capital Inc., Salman Partners Inc. and Scotia Capital Inc. as Underwriters. In addition, the Underwriters exercised a portion of the over-allotment option in respect of 50,000 Warrants. Net proceeds from the Offering are being used to complete the Gahcho Kué feasibility study and for general working capital purposes.

During the nine month fiscal year ended December 31, 2009, the Company received $600,360 by issuing 365,365 shares upon the exercise of stock options. During the year ended March 31, 2009, the Company received $34,502 by issuing 61,500 shares upon the exercise of various stock options.

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

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

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

D. Trend information.

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

E. Off-balance sheet arrangements.

The Company has no off balance sheet arrangements.

F. Tabular disclosure of contractual obligations.

The Company has no contractual obligations relating to debt or lease obligations as at December 31, 2009.

Critical Accounting Estimates

The preparation of financial statements in conformity with 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 exploration, assumptions used to determine the fair value of stock-based compensation, and impairment of the Company’s interest in the Gahcho Kué Project. 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 and its interest in the Gahcho Kué Project 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 Company reviews its interest in the Gahcho Kué Project for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. Canadian GAAP requires the Company to make certain judgments, assumptions, and estimates in identifying such events and changes in circumstances, and in assessing their impact on the valuations of the affected assets. Impairments are recognized when the book values exceed management’s estimate of the net recoverable amounts associated with the affected assets. The values shown on the balance sheet for the Company’s interest in the Gahcho Kué Project represent the Company’s assumption that the amounts are recoverable. Owing to the numerous variables associated with the Company’s judgments and assumptions, the precision and accuracy of estimates of related impairment charges are subject to significant uncertainties, and may change significantly as additional information becomes known. The Company’s assessment is that there were no indicators of impairment at December 31, 2009.

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 development and permitting of the AK Property 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.

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 9 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 March 29, 2010, 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(2)(3)	Chairman of the Company since May 11, 2006 and Director since September 21, 2001	37
Patrick Evans	President, Chief Executive Officer and Director	President and Director of the Company since November 15, 2005.	54
Jennifer Dawson	Chief Financial Officer	Chief Financial Officer since May 11, 2006	49
D. Harry W. Dobson	Director(1)	Director since November 1, 1997	61
Elizabeth J. Kirkwood	Director(1)	Director since September 21, 2001	60
Peeyush Varshney	Director(2)	Director since April 13, 2007	43
Carl Verley	Director(1)(3)	Director of Old MPV since December 2, 1986 and Director of the Company since November 1, 1997	59
David E. Whittle	Director(2)(3)	Director since November 1, 1997	45

(1) Member of the Company's Corporate Governance Committee.
(2) Member of the Company's Audit Committee.
(3) Member of the Company's Compensation Committee.

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

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

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

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

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

Jennifer M. Dawson, B.B.A.

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

D. Harry W. Dobson

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

Elizabeth J. Kirkwood

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

Peeyush Varshney, LL.B.

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

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

Carl Verley was a director of Old MPV since its inception in December 1986 and has been a director of the Company since November 1997. He is a resident of British Columbia, Canada, and a graduate of the University of British Columbia where he received his Bachelor of Science Degree in May of 1974. He worked for Cordilleran Engineering Ltd. from 1975 to 1982. He has been a self-employed geologist since 1982. From August of 1990 to January 2002, he served on the Board of Directors of Gee-Ten Ventures Inc., and since July 2003, he has been a director of Alphamin Resources Corp. (formerly La Plata Gold Corporation) and a director of African Metals Corporation since October 2007. He has been the President of Amerlin Exploration Services Ltd., a private company providing exploration services to the mineral industry, since its inception in 1983. He is a registered Professional Geoscientist with both the Association of Professional Geoscientists of Ontario and the British Columbia Association of Professional Engineers and Geoscientists.

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

Mr. Whittle is a Chartered Accountant and is a resident of British Columbia, Canada. He has been a director of the Company since November 1997, and from November 1997 to April 1998 served as Secretary of the Company. 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 a director of Glenmore Highlands Inc., a public company in the mineral exploration business. From 2004 to August 2007, Mr. Whittle was Chief Financial Officer of Hillsborough Resources Limited, a public company in the mining business. From 2004 to August 2007, Mr. Whittle was a director of Image Innovations Holdings Inc., a public company in the business of sports memorabilia and artwork. From October 2007 to the present, Mr. Whittle's principal occupation has been and is Chief Financial Officer of Alexco Resource Corp., a public company in the business of both undertaking mineral exploration and development and providing consulting services to third parties in respect of environmental remediation and permitting.

B. Compensation.

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

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

- Patrick Evans, President and Chief Executive Officer, earned other annual compensation of $314,471 in the most recent fiscal year (nine months to December 31, 2009) including $309,471 pursuant to a Consulting Agreement (as amended) for his services as President and CEO, as well as a director's fee of $5,000 for the nine months ended December 31, 2009. He has 600,635 stock options as follows:

Grant date	Number	Vesting	Exercise Price	Term
November 1, 2005	100,000	50,000 on acceptance of the Consulting Agreement 50,000 on the first anniversary of the acceptance of the Consulting Agreement (Fully vested)	$2.63	5 years
January 30, 2006	100,000	50,000 vested immediately 50,000 vested January 31, 2007	$4.50	5 years
November 24, 2008	100,635	Immediately	$1.26	5 years
August 24, 2009	300,000	Immediately (upon approval of the amended stock option plan by stockholders at the September 10, 2009 Annual General Meeting)	$1.72	5 years

37

- Jennifer Dawson, Chief Financial Officer and Corporate Secretary, was paid $162,013 pursuant to a Consulting Agreement for her services as CFO and Corporate Secretary for the nine months ended December 31, 2009. She was granted 90,000 options on November 24, 2008, each with a term of 5 years, an exercise price of $1.26, and all of which vested immediately.

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.

During each of the years ended December 31, 2009 (nine months), March 31, 2009, and 2008, director fees were earned by the following directors: Jonathan Comerford ($10,000 as Chair of the Board, annually), David Whittle ($7,500 as Chair of the Audit Committee, annually), Carl Verley ($5,000 annually), Elizabeth Kirkwood ($5,000 annually), Patrick Evans ($5,000 annually) and Harry Dobson ($5,000 annually), and for the years ended March 31, 2009 and 2008 only, Peeyush Varshney ($5,000 annually). In the year ended March 31, 2008, three directors were compensated for their work in the Company’s Gahcho Kué Project strategic alternatives review (David Whittle $25,000, Jonathan Comerford $20,000 and Peeyush Varshney $20,000).

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

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

Name	Securities, Acquired on Exercise (#)	Aggregate Value Realized ($)(1)	Unexercised Options at Financial Year-End Exercisable / Unexercisable (#)	Value of Unexercised In-the-Money Options at Financial Year-End Exercisable / Unexercisable ($)(2)
Patrick Evans	Nil	Nil	600,635/0	$274,654/0
Jennifer Dawson	Nil	Nil	90,000/0	$92,700/0

(1) Based on the difference between the option exercise price and the closing market price of the Company's shares on the date of exercise.
(2) In-the-Money Options are those where the market value of the underlying securities as at the most recent financial year end exceeds the option exercise price. The closing market price of the Company's shares as at December 31, 2009, (ie. financial year end) was $2.29.

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

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

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

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

C. Board practices.

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

The next Annual General Meeting of the shareholders of the Company has been scheduled for September 9, 2010.

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

Audit Committee

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

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

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

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

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

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

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

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

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

Corporate Governance Committee

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

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

Compensation Committee

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

D. Employees.

As at the end of the fiscal nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008, the Company had no full-time employees. Patrick Evans and Jennifer Dawson have consulting agreements with the Company. The Toronto administrative and executive office uses outsourced administrative assistance on an as-needed, part-time basis. De Beers Canada employs personnel who conduct the exploration, permitting and other activities on the AK Property.

E. Share ownership.

The following table sets forth, as of March 29, 2010, 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)(10) of Class
D. Harry Dobson(1)	1,282,510	1.9%
Patrick C. Evans(2)	999,835	1.5%
Carl G. Verley(3)	325,250	*%
Jonathan Comerford(4)	200,000	*%
Peeyush Varshney(5)	170,122	*%
Elizabeth Kirkwood(6)	110,000	*%
David E. Whittle(7)	130,600	*%
Jennifer Dawson(8)	105,000	*%
Officer and Directors as a Group(9)	3,323,317	5.0%

* less than 1%

(1) Includes 1,208.510 shares and 74,000 options which are exercisable at a price of $1.26 per share, and which expire on November 23, 2013.

(2) Includes 349,200 shares and 600,635 options. 100,000 options are exercisable at a price of $2.63 per share and expire on November 1, 2010. 100,000 options are exercisable at a price of $4.50 per share and expire on January 30, 2011. 100,635 options are exercisable at a price of $1.26 per share and expire on November 23, 2013. 300,000 options are exercisable at a price of $1.72 per share and expire on August 24, 2014. Also includes 50,000 warrants exercisable at $3.20 per share, expiring June 8, 2011.

(3) Includes 275,250 shares and 50,000 options. The options are exercisable at a price of $1.26 per share, and expire on November 23, 2013.

(4) Includes nil shares and 180,000 options. The options are exercisable at a price of $1.26 per share and expire on November 23, 2013.

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

(6) Includes 20,000 shares and 90,000 options. The options are exercisable at a price of $1.26 per share and expire on November 23, 2013.

(7) Includes 65,600 shares, 60,000 options, and 5,000 warrants. The options are exercisable at a price of $1.26 per share and expire on November 23, 2013. The warrants are exercisable at a price of $2.00 and expire February 5, 2011

(8) Includes nil shares, 90,000 options, and 15,000 warrants,. The options are exercisable at $1.26 per share, expiring November 23, 2013. The warrants are exercisable at $2.00 per share and expire February 5, 2011.

(9) Includes 1,234,635 options (exercisable), and 70,000 warrants.

(9) The calculation does not include stock options or warrants that are not exercisable presently or within 60 days (none)

(10) Total issued and outstanding capital as at the close of March 29, 2010 was 66,631,746 shares.

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

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

Item 7. Major Shareholders and Related Party Transactions

A. Major shareholders.

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

As at March 29, 2010, the Company's issued and outstanding capital was 66,631,746 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 March 29, 2010, the Company believes that approximately 14,793,470 of the issued and outstanding common shares were held by 78 shareholders with addresses in the United States. A number of these shares are held in "street" name and may, therefore, be held by several beneficial owners.

The following table shows, to the best knowledge of the Company, the number (as at March 29, 2010) and percentage of shares, warrants and options held by the Company's major shareholders on a partially diluted basis.

Name of Shareholder(1)	No. of Shares, Options and Warrants Held	Percentage of issued and outstanding share capital of 66,631.746 shares (as at March 29, 2010)
Bottin (International) Investments Ltd.(1) (controlled by Dermot Desmond)	14,253,429	21.39%
Desmond P. Sharkey(2) Dublin, Ireland	6,206,000	9.31%
De Beers Canada Inc.	3,045,543	4.57%

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

(2) Includes 13,920,096 shares, and 333,333 warrants.

(3) Includes 5,872,667 shares, and 333,333 warrants.

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

B. Related party transactions.

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

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

Both Mr. Evans and Ms. Dawson have Consulting Agreements with the Company.

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

There is no indebtedness between the directors and the Company.

C. Interests of experts and counsel.

Not Applicable

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Listed in Item 19 hereto are audited consolidated financial statements as at December 31, 2009 and March 31, 2009 and for the nine month period ended December 31, 2009, and the fiscal years ended March 31, 2009 and 2008, 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, other than the exercise of options as disclosed in the financial statements included in this Form 20-F.

Item 9. The Offer and Listing.

A. Offer and listing details.

The 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 OTC-Bulletin Board ("OTCBB") under the symbol "MPVI" until June 1, 2005. Commencing on April 4, 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 Amex, Nasdaq and/or 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 (c) for the most recent twelve months.

High and Low Prices for the Five Most Recent Fiscal Years

Fiscal Year Ended	TSX		NYSE AMEX / OTCBB(1)	
	High (CDN$)	Low (CDN$)	High (US$)	Low (US$)
December 31, 2009	$ 3.07	$ 0.86	$ 2.90	$ 0.69
March 31, 2009	$ 5.05	$ 0.75	$ 4.95	$ 0.58
March 31, 2008	$ 5.93	$ 3.79	$ 5.49	$ 3.54
March 31, 2007	$ 5.05	$ 3.05	$ 4.40	$ 2.70
March 31, 2006	$ 4.90	$ 2.26	$ 4.26	$ 1.90

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 OTCBB and continued through April 1, 2005. On April 4, 2005, the Company's shares began trading on the AMEX. AMEX was taken over by NYSE Euronext which then rebranded to NYSE Amex.

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

	TSX		NYSE Amex / OTCBB	
Period Ended:	High (CDN$)	Low (CDN$)	High (US$)	Low (US$)
December 31, 2009	$ 3.05	$ 2.16	$ 2.90	$ 2.06
September 30, 2009	$ 2.79	$ 1.57	$ 2.58	$ 1.34
June 30, 2009	$ 1.85	$ 0.86	$ 1.68	$ 0.69
March 31, 2009	$ 1.20	$ 0.75	$ 1.03	$ 0.58
December 31, 2008	$ 3.20	$ 0.96	$ 3.05	$ 0.78
September 30, 2008	$ 4.74	$ 2.70	$ 4.70	$ 2.58
June 30, 2008	$ 5.05	$ 4.20	$ 4.95	$ 4.12
March 31, 2008	$ 5.10	$ 4.12	$ 5.12	$ 4.07
December 31, 2007	$ 5.10	$ 4.00	$ 5.23	$ 4.07
September 30, 2007	$ 5.51	$ 3.79	$ 5.26	$ 4.15
June 30, 2007	$ 5.93	$ 4.17	$ 5.49	$ 4.34

High and Low Prices for the Most Recent Twelve Months

	TSX (CDN$)		NYSE AMEX(1)	
Month Ended	High	Low	High	Low
February 2010	$ 2.36	$ 2.13	$ 2.26	$ 2.02
January 2010	$ 2.60	$ 2.25	$ 2.50	$ 2.20
December 2009	$ 2.45	$ 2.16	$ 2.33	$ 2.06
November 2009	$ 3.05	$ 2.40	$ 2.88	$ 2.24
October 2009	$ 3.07	$ 2.71	$ 2.90	$ 2.48
September 2009	$ 2.79	$ 1.62	$ 2.58	$ 1.54
August 2009	$ 1.75	$ 1.59	$ 1.64	$ 1.50
July 2009	$ 1.77	$ 1.57	$ 1.62	$ 1.34
June 2009	$ 1.85	$ 1.52	$ 1.68	$ 1.51
May 2009	$ 1.65	$ 1.30	$ 1.46	$ 1.09
April 2009	$ 1.31	$ 0.86	$ 1.08	$ 0.69
March 2009	$ 0.90	$ 0.75	$ 0.74	$ 0.58

(1) On April 4, 2005, the Company's Common Shares began trading on the American Stock Exchange. AMEX was taken over by NYSE, and rebranded as NYSE Amex. On December 31, 2009, the closing price of the Common Shares on the TSX was $2.29 and on March 29, 2010 was $2.14. The shares commenced trading on NYSE AMEX on April 4, 2005 and the closing price of the Common Shares on December 31, 2009 was US$2.16 per share. The closing price on March 29, 2010 on the NYSE Amex was US$2.09 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 (now NYSE Amex) under the symbol "MDM". The Common Shares are not registered to trade in the United States in the form of American Depository Receipts or similar certificates.

D. Selling shareholders.

Not Applicable.

E. Dilution.

Not Applicable.

F. Expenses of the issue.

Not Applicable.

Item 10. Additional Information.

A. Share capital.

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. Pursuant to the Shareholders special resolution on September 20, 2005 approving the continuance of the Company into Ontario, the Company continued under the laws of the Province of Ontario pursuant to Articles of Continuance dated May 8, 2006.

Powers, functions and qualifications of Directors

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

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 vote of not less than two-thirds of the shareholders voting in person or by proxy at a meeting of the shareholders of the Company.

Annual General Meetings

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

Foreign Ownership Limitations

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

Change of Control

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

At the September 13, 2006 Annual and Special Meeting of the shareholders, a Shareholder Rights Plan dated August 4, 2006 was approved, ratified, confirmed and adopted by the shareholders of the Company in accordance with and subject to its terms and conditions. The objectives of the Rights Plan are to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any Take-Over Bid for the Company.

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

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

In addition, the Rights Plan Agreement provides that the continued existence of the Rights Plan must be ratified by a majority of the shareholders of the Company at a meeting of shareholders of the Company to be held not earlier than January 31, 2010 and not later than the date on which the 2010 annual meeting of shareholders of the Company terminate.

Share Ownership Reporting Obligations

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

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

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

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

C. Material contracts.

The Company entered into the following material contracts in the last two fiscal periods, up to the date of this Form 20-F: the 2009 Amended and Restated Joint Venture Agreement between the Company and De Beers Canada Inc.; the contract with JDS Energy and Mining Inc. and De Beers Canada Inc. relating to completion of the Gahcho Kué Feasibility Study; and a revised consulting agreement with Patrick Evans, the Company's President and CEO which was amended in August 2009 to increase his annual remuneration, to grant stock options to him, and to provide for future performance bonuses.

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 2006 WTO Review Threshold is CDN$265,000,000.

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$265,000,000 (in 2006) 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.

E. Taxation.

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

The following information is 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.

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

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

Dividends on Common Shares and Other Income

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

The Convention generally exempts from Canadian non-resident tax dividends paid to certain religious, scientific, literary, educational or charitable organizations and certain pension organizations that are resident in the United States and are exempt from income tax under the laws of the United States.

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

Dispositions of Common Shares

Under the Canadian Tax Act, a U.S. Holder will generally not be subject to tax in respect of capital gains realised on the disposition or deemed disposition of shares of the common stock of the Company unless, at the time of disposition, the shares constitute "taxable Canadian property."

Shares of common stock of the Company will not constitute taxable Canadian property of a U.S. Holder at a particular time unless at any time in the 60 months immediately preceding the disposition of such shares 25% or more of the issued shares of any class or series in the capital stock of the Company belonged to one or more persons in a group comprising the U.S. Holder and persons with whom the U.S. Holder did not deal at arm's length.

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

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

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

If a U.S. Holder realizes a capital gain or capital loss from a disposition of a share of common stock of the Company which constitutes taxable Canadian property for purposes of the Canadian Tax Act and is not otherwise exempt under the Convention, then the capital gain or capital loss is the amount, if any, by which the U.S. Holder's proceeds of disposition exceed (or are exceeded by, respectively) the aggregate of the U.S. Holder's adjusted cost base of the share and reasonable expenses of disposition. 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 ("taxable capital gain") is included in income for Canadian tax purposes. The amount by which one half of a U.S. Holder's capital loss from the disposition of taxable Canadian property exceeds the taxable capital gain in a year may generally be deducted for Canadian tax purposes from taxable capital gains realized by the shareholder from the disposition of taxable Canadian property in the three years previous or any subsequent year, in the manner permitted under the Canadian Tax Act. A U.S. Holder whose shares do not constitute taxable Canadian property for purposes of the Canadian Tax Act should not be subject to Canadian income tax on any gain realized on the disposition of a share of the capital stock of the Company.

United States Federal Income Tax Consequences

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

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

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 or proposed changes to the Canada-U.S. Tax Convention.

U.S. Holders

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

Non-U.S. Holders

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

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

This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to U.S. Holders that are subject to special provisions under the Code, including but not limited to the following 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. tax expatriates; (f) U.S. Holders that own Common Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (g) U.S. Holders that acquired Common Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (h) partners of partnerships that hold Common Shares or owners of other entities classified as partnerships or "pass-through" entities for U.S. federal income tax purposes that hold Common Shares, (i) U.S. Holders that hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own tax advisors regarding the tax consequences of the acquisition, ownership, and disposition of Common Shares.

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

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

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

Distributions on Common Shares

General Taxation of Distributions

Generally, and subject to the discussion below, concerning “passive foreign investment companies” (“PFICs”), a U.S. Holder that receives a distribution, including a constructive distribution, with respect to the Common Shares will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated "earnings and profits" of the Company (as determined under U.S. tax principles). To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated (a) first, as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the Common Shares and, (b) thereafter, as gain from the sale or exchange of such Common Shares. (See more detailed discussion at "Disposition of Common Shares" below).

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 may be taxed at the preferential tax rates applicable to long-term capital gains (generally, a 15% federal tax rate) 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 PFIC 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 PFIC (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). As discussed below, additional U.S. tax consequences may arise on such a dividend under the PFIC rules. The dividend rules are complex and each U.S. Holder should consult its own tax advisors 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 tax advisors regarding the dividends received deduction.

Disposition of Common Shares

Subject to the discussion of the PFIC rules, below, 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 “qualified electing fund” (“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.

Foreign Tax Credit

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

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." In addition, this limitation is calculated separately with respect to specific categories of income known as "baskets", and there are limitations under the basket rules also. Unused foreign tax credits generally can be carried back one year and forward ten years. The foreign tax credit rules are complex, and each U.S. Holder should consult its own tax advisors regarding the foreign tax credit rules.

Information Reporting; Backup Withholding Tax

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

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 U.S. federal income tax consequences to U.S. Holders described above of the acquisition, ownership, and disposition of Common Shares are modified by special rules.

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)(31) 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.

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. "Passive income" includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

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

The Company believes that it was a PFIC for the taxable year ended March 31, 2009 and that it will be a PFIC for the taxable year ending December 31, 2009. 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 on the disposition of Common Shares and any “excess” distribution paid on the Common Shares.

Under Section 1291 of the Code, any gain recognized on the sale or other disposition of Common Shares, and any excess distribution paid on the Common Shares, must be rateably allocated to each day in a Non-Electing U.S. Holder's holding period for the Common Shares. The amount of any such gain or excess distribution allocated to prior years of such Non-Electing U.S. Holder's holding period for the Common Shares will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year. A Non-Electing U.S. Holder will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year. The amount of any such gain or excess distribution allocated to the current year of such Non-Electing U.S. Holder's holding period for the Common Shares will be treated as ordinary income in the current year (but will not qualify for the preferential dividend rate previously discussed), and no interest charge will be incurred with respect to the resulting tax liability for the current year.

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

QEF Election

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

Each U.S. Holder should consult its own U.S. tax advisors regarding the advisability of, and procedure for making, a QEF Election. U.S. Holders should be aware that there can be no assurance that the Company will satisfy record keeping requirements so that a U.S. Holder may make certain information returns to the IRS, or that the Company will supply U.S. Holders with information that such U.S. Holders are required to report under the QEF rules, in the event that the Company is a PFIC and a U.S. Holder wishes to make a QEF Election.

Mark-to-Market Election

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

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

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

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

Other PFIC Rules

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

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

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

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

F. Dividend and paying agents

Not Applicable

G. Statement by experts.

The Incorporation as an Exhibit and the references herein to “The Gahcho Kué Kimberlite Project, NI 43-101 Technical Report, Northwest Territories, Canada” dated April 20, 2009 have been consented to by Alexandra J. Kozak, P.Eng, AMEC Americas Limited, 111 Dunsmuir Street, Suite 400, Vancouver, British Columbia, Canada V6B 5W3; Ken R. Brisebois, P.Eng., AMEC E&C Services, Inc., 780 Vista Blvd, Suite 100, Sparks, Nevada, United States 89434; and Ted Leonard Eggleston, Ph.D., P.Geo., AMEC E&C Services, Inc., 2001 W. Camelback Road, Phoenix, AZ, United States of America, 85015.

H. Documents on display.

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

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

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

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

Any of the documents referred to above can also be viewed at the offices of the Company's attorneys, Hodgson Russ LLP, 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 December 31, 2009 as "Marketable Securities" at an amount of $13,431, which is their quoted market value. Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flows of the Company due to adverse changes in financial market prices, including interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market or price risks.

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

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

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

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

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) Disclosure Controls and Procedures.

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

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP, and reconciled to US GAAP, as applicable.

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

To evaluate the effectiveness of the Company's internal control over financial reporting, Management has used the Internal Control - Integrated Framework, which is a suitable, recognized control framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective as of December 31, 2009.

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

The Registrant's independent registered public accounting firm, KPMG LLP, has issued an attestation report expressing an opinion on the Company's internal control over financial reporting as of December 31, 2009. For KPMG LLP's report, see Item 19 of this Annual Report on Form 20-F.

(d) Changes in Internal Controls over Financial Reporting.

An internal control weakness was identified in the interim period ended September 30, 2009 relating to the intra-period allocation of income tax recovery/provision. This internal control weakness was remediated in the period ended September 30, 2009 and found to be operating effectively in the subsequent period. Management has revised its internal control procedures relating to the intra-period allocation of income tax recovery/provision at each interim period to prevent such a weakness in future periods. There have not been any further 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 NYSE Amex. All other members of the Audit Committee are also independent as defined by the listing standards of the NYSE Amex.

Item 16B. Code of Ethics.

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

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 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;
- 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 or changes to the 2006 Corporate Governance Policies during the fiscal year ending December 31, 2009. A copy of the 2006 Corporate Governance Policies is incorporated by reference as Exhibit 11.1 to this Annual Report.

The Company will provide a copy of the 2006 Corporate Governance Policies to any person, without charge. To obtain a copy without charge, send a request, in writing, to the Company at Mountain Province Diamonds Inc., Attention: Corporate Secretary, 401 Bay Street, Suite 2700, PO Box 152, Toronto, Ontario, Canada M5H 2Y4.

Item 16C. Principal Accountant Fees and Services.

A. Audit Fees

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

Aggregate audit fees billed in fiscal December 31, 2009 by KPMG were $128,950 including fees for reviews of the September 30, 2009 and comparative quarters. The Company was billed $75,000 in the fiscal year ending March 31, 2009. All such fees were approved by the Audit Committee.

B. Audit-Related Fees

"Audit-Related Fees" are fees that are or would be charged by KPMG for presentations or training on accounting or regulatory pronouncements, due diligence services related to accounting and tax matters in connection with potential acquisitions/dispositions, advice and documentation assistance with respect to internal controls over financial reporting and disclosure controls and procedures of the Company, and if applicable, audits of financial statements of a company's employee benefit plan. "Audit Related Fees" charged by KPMG during the fiscal period ended December 31, 2009 were $50,000 and $nil for March 31, 2009. All such services were approved by the Audit Committee.

C. Tax Fees

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

Aggregate tax fees billed in fiscal December 2009 by KPMG were $13,900 (March 31, 2009 - $18,695) pertaining to tax compliance. These services were approved by the Audit Committee.

D. All Other Fees

In the fiscal year ending December 31, 2009, aggregate fees billed by KPMG were $27,200 for advice pertaining to the amended and restated Joint Venture Agreement and International Financial Reporting Standards consultations. There were no other fees charged by KPMG during the fiscal year ended March 31, 2009.

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, 2009, 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.

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

Not Applicable.

Item 16G. Corporate Governance.

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

• Shareholder Meeting Quorum Requirement: The NYSE Amex minimum quorum requirement for a shareholder meeting is one-third of the outstanding common shares. In addition, a Corporation listed on NYSE Amex is required to state its quorum requirement in its bylaws. The Corporation's quorum requirement (set forth in its Articles) is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting.
• Proxy Delivery Requirement: NYSE Amex requires the solicitation of proxies and delivery of proxy statements for all shareholder meetings, and requires that these proxies shall be solicited pursuant to a proxy statement that conforms to SEC proxy rules. The Corporation is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and Rule 405 under the Securities Act and the equity securities of the Corporation are accordingly exempt from the proxy rules set forth in Sections 14(a), 14(b), 14(c) and 14(f) of the Exchange Act. The Corporation solicits proxies in accordance with applicable rules and regulations in Canada.
• Shareholder Approval Requirement: The Corporation will follow the Canadian securities regulatory authorities and Toronto Stock Exchange rules for shareholder approval of new issuances of its common shares. Following securities and exchange rules, shareholder approval is required for certain issuances of shares that: (i) materially affect control of the Corporation; or (ii) provide consideration to insiders in aggregate of 10% or greater of the market capitalization of the listed issuer and have not been negotiated at arm's length. Shareholder approval is also required, pursuant to Toronto Stock Exchange rules, in the case of most private placements: (x) for an aggregate number of listed securities issuable greater than 25% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of closing of the transaction if the price per security is less than the market price; or (y) that during any six month period are to insiders for listed securities or options, rights or other entitlements to listed securities greater than 10% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the date of the closing of the first private placement to an insider during the six month period.

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 9 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 the nine months ended December 31, 2009, and the years ended March 31, 2009 and March 31, 2008, 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 annual report on Form 20-F in the United States. This report is also filed in Canada as an Annual Information Form and the Canadian filing 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 nine months ended December 31, 2009 and the years ended March 31, 2009 and 2008 filed with Canadian Securities Regulators on SEDAR under "Audited Annual Financial Statements - English" and incorporated herein by reference.

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

Consolidated Financial Statements of the Company:

- Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting.
- Report of Independent Registered Public Accounting Firm, and Comments by Auditors for US Readers on Canada-US Reporting Differences.
- Consolidated Balance Sheets as of December 31, 2009 and March 31, 2009.
- Consolidated Statements of Operations and Deficit for the nine months ended December 31, 2009, and the years ended March 31, 2009, and March 31, 2008.
- Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income for the nine months ended December 31, 2009, and the years ended March 31, 2009, and March 31, 2008.
- Consolidated Statements of Cash Flows for the nine months ended December 31, 2009, and the years ended March 31, 2009, and March 31, 2008.
- Notes to the Consolidated Financial Statements

SIGNATURES

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

Mountain Province Diamonds Inc.
(Company)

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

Date: March 31, 2010

Patrick C. Evans
President, CEO and Director

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

EXHIBIT INDEX

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

Exhibit		Remarks.
1.1	By-Laws of the Company	(3)
1.2	Arrangement Agreement between the Company and Glenmore Highlands Inc. dated May 10, 2000.	(5)
1.3	Joint Information Circular of the Company and Glenmore Highlands Inc.	(4)
4.1	Transfer agreement between MPV, Monopros and Camphor dated November 24, 1999 pursuant to which MPV and Camphor transferred the GOR to Monopros.	(3)
4.2	Letter Agreement between MPV, Monopros, Glenmore and Camphor dated December 17, 1999 relating to acquisition of property, within the "Area of Interest" as defined in the agreement and acquisition of property through third party agreements.	(3)
4.3	Letter Agreement dated December 17, 1999 between MPV, Monopros, Camphor and Glenmore amending the Monopros Joint Venture Agreement.	(3)
4.4	Form of Subscription Agreement for the private placement described in item 1 of "Material Contracts".	(3)
4.5	Agreement dated as of January 1, 2002 between the Company, Camphor Ventures Inc. and De Beers Canada Exploration Inc.	(1)
4.6	Second Amendment Agreement dated January 1, 2002 between the Company and Paul Shatzko.	(3)
4.7	Second Amendment Agreement dated January 1, 2002 between the Company and Jan Vandersande.	(3)
4.8	Third Amendment Agreement dated December 13, 2002 between the Company and Jan Vandersande	(3)
4.9	Letter agreement dated December 13, 2002 between the Company and Elizabeth Kirkwood	(3)
4.10	Consulting Agreement dated January 1, 2004 between the Company and Jan W. Vandersande	(3)
4.11	Consulting Agreement dated November 1, 2005 between the Company and Patrick Evans	(3)
4.12	Revised Consulting Agreement dated January 31, 2006 between the Company and Patrick Evans	(3)
4.13	Consulting Agreement dated May 11, 2006 between the Company and Jennifer Dawson	(3)
8.1	List of Subsidiaries	(2)
11.1	Corporate Governance Policies dated May 29, 2006.	(3)
12.1	Section 302 Certification of the Company's Chief Executive Officer	-
12.2	Section 302 Certification of the Company's Chief Financial Officer	-
13.1	Section 906 Certification of the Company's Chief Executive Officer	-
13.2	Section 906 Certification of the Company's Chief Financial Officer	-
14.1	Independent Qualified Persons’ Technical Report dated April 20, 2009 entitled Gahcho Kué Kimberlite Project NI 43-101 Technical Report prepared by Ken Brisebois, P.Eng., Dr. Ted Eggleston, P.Geo., and Alexandra Kozak, P.Eng., all of AMEC Americas Limited.	(6)
14.2	Consents for inclusion of the Technical Report in Exhibit 14.1 and reference in Form 20-F	-
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 11 of this Annual Report.

(3) Previously filed and incorporated by reference. 11.1 was included in the Company’s Form 20-F filing of June 30, 2006.

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

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

(6) Previously files and incorporated by reference. 14.1 was included in the Company's Form 20-F filing of June 26, 2009.

Appendix

Item 17. Financial Statements

66

Consolidated Financial Statements
(Expressed in Canadian dollars)

Mountain Province Diamonds Inc.

For the Nine Month Period ended December 31, 2009,
and for the years in the two-year period ended March 31, 2009

67

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Chartered Accountants
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Mountain Province Diamonds Inc.

We have audited Mountain Province Diamonds Inc.'s ("the Company") internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting within Form 20-F. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2009 and March 31, and the related consolidated statements of operations and deficit, comprehensive income, accumulated other comprehensive income and cash flows for the nine month period ended December 31, 2009 and for the years in the two-year period ended March 31, 2009, and our report dated March 30, 2010, expressed an unqualified opinion on those consolidated financial statements.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 30, 2010

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

REPORT OF MANAGEMENT

The accompanying consolidated financial statements are the responsibility of management. These statements have been prepared in accordance with generally accepted accounting principles in Canada, and reflect management's best estimates and judgments based on currently available information.

Management has developed and maintains systems of internal accounting controls in order to ensure, on a reasonable and cost effective basis, the reliability of its financial information and the safeguarding of assets.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities through the Audit Committee of three independent directors which meets with management and the auditors during the year, to review reporting and control issues and to satisfy itself that each party has properly discharged its responsibilities. The Committee reviews the financial statements before they are presented to the Board of Directors for approval and considers the independence of the auditors.

The consolidated financial statements have been audited by KPMG LLP, an independent firm of chartered accountants appointed by the shareholders at the Company's last annual meeting. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

"Patrick Evans"
Patrick C. Evans
President and Chief Executive Officer

"Jennifer Dawson"
Jennifer M. Dawson
Chief Financial Officer and Corporate Secretary

March 30, 2010

70

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REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors of Mountain Province Diamonds Inc.

We have audited the accompanying consolidated balance sheets of Mountain Province Diamonds Inc. ("the Company") as of December 31, 2009 and March 31, 2009 and the related consolidated statements of operations and deficit, comprehensive income, accumulated other comprehensive income and cash flows for the nine month period ended December 31, 2009 and for the years in the two-year period ended March 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and March 31, 2009 and the results of its operations and its cash flows for the nine months ended December 31, 2009 and for the years in the two-year period ended March 31, 2009 in conformity with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from US generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in Note 9 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 30, 2010 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 30, 2010

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KPMG Canada provides services to KPMG LLP.

71

COMMENTS BY AUDITORS FOR US READERS ON CANADA - US REPORTING DIFFERENCES

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the company's ability to continue as a going concern, such as those described in Note 1 to the consolidated financial statements. Our report to the shareholders dated March 30, 2010 is expressed in accordance with Canadian reporting standards, which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 30, 2010

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network of independent member firms affiliated with KPMG International, a Swiss cooperative.
KPMG Canada provides services to KPMG LLP.

MOUNTAIN PROVINCE DIAMONDS INC.
Consolidated Balance Sheets
As at December 31, 2009 and March 31, 2009
(In Canadian dollars)

	December 31, 2009	March 31, 2009
ASSETS		
Current assets		
Cash (Note 4)	$208,559	$65,410
Short-term investments (Note 4)	9,733,718	231,936
Marketable securities (Note 3)	13,431	5,958
Amounts receivable	269,979	37,419
Advances and prepaid expenses	39,173	57,249
	10,264,860	397,972
Fixed assets	44,100	-
Interest in Gahcho Kué Joint Venture (Note 5)	73,437,586	65,161,533
Total assets	$83,746,546	$65,559,505
LIABIILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$1,949,489	191,711
Long-term liabilities		
Future income tax liabilities (Note 7)	5,176,881	5,686,567
Asset retirement obligation relating to Gahcho Kué Joint Venture (Note 5)	5,103,875	-
Shareholders' equity:		
Share capital (Note 6)	97,312,714	85,870,841
Value assigned to warrants (Note 6)	1,870,564	-
Contributed surplus (Note 6)	1,238,302	1,264,800
Deficit	(28,914,078)	(27,455,740)
Accumulated other comprehensive income	8,799	1,326
Total shareholders' equity	71,516,301	59,681,227
Total liabilities and shareholders' equity	$83,746,546	$65,559,505

See accompanying notes to consolidated financial statements
Nature of operations (Note 1)
Going concern (Note 1)
Commitments and Contingencies (Note 5)

On Behalf of the Board of Directors:

"Jonathan Comerford"
Jonathan Comerford, Director

"Patrick Evans"
Patrick Evans, Director

73

MOUNTAIN PROVINCE DIAMONDS INC.
Consolidated Statements of Operations and Deficit
Nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

	(Nine months ended) December 31, 2009	(12 months ended) March 31, 2009	(12 months ended) March 31, 2008
Expenses:			
Accretion on asset retirement obligation	$ (190,064)	$ -	$ -
Amortization	-	-	(14,239)
Consulting fees	(526,947)	(639,987)	(474,704)
Interest and bank charges	(3,387)	(2,355)	(4,605)
Gahcho Kué Project management fee	(20,725)	-	-
Office and administration	(195,774)	(71,887)	(115,079)
Professional fees	(350,994)	(185,011)	(202,245)
Promotion and investor relations	(154,029)	(82,816)	(86,380)
Salary and benefits	(122,917)	(46,371)	(129,291)
Stock-based compensation (Note 6)	(268,405)	(574,200)	-
Transfer agent and regulatory fees	(104,396)	(115,856)	(106,343)
Travel	(42,351)	(78,685)	(61,324)
Net loss for the period before the undernoted	(1,979,989)	(1,797,168)	(1,194,210)
Other income:			
Interest income	11,965	36,782	62,155
Gain on sale of long-term investment	-	-	1,075,420
	11,965	36,782	1,137,575
Loss for the period before tax recovery	(1,968,024)	(1,760,386)	(56,635)
Future income tax recovery (Note 7)	509,686	222,796	222,166
Net (loss) income for the period	(1,458,338)	(1,537,590)	165,531
Deficit, beginning of period	(27,455,740)	(25,918,150)	(26,083,681)
Deficit, end of period	$ (28,914,078)	$ (27,455,740)	$ (25,918,150)
Basic and diluted (loss) earnings per share	$ (0.02)	$ (0.03)	$ 0.00
Weighted average number of shares outstanding	62,023,496	59,929,348	59,674,830

See accompanying notes to consolidated financial statements

MOUNTAIN PROVINCE DIAMONDS INC.
Consolidated Statements of Comprehensive Income
Nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

	(Nine months ended) December 31, 2009	(12 months ended) March 31, 2009	(12 months ended) March 31, 2008
Net (loss) income for the period	$(1,458,338)	$(1,537,590)	$165,531
Other comprehensive (loss) income			
Unrealized gain (loss) on marketable securities	7,473	(31,611)	(14,239)
Increase in value of long-term investment	-	-	795,420
Recycling of gain on sale of long-term investment	-	-	(1,075,420)
Recycling on opening unrealized gain on long-term investment	-	-	280,000
Comprehensive (Loss) Income	$(1,450,865)	$(1,569,201)	$151,292

Consolidated Statement of Accumulated Other Comprehensive Income
(Expressed in Canadian Dollars)

	(Nine months ended) December 31, 2009	(12 months ended) March 31, 2009	(12 months ended) March 31, 2008
Balance, beginning of period	$1,326	$32,937	$-
Adjustment at beginning of period due to change in accounting for available-for-sale assets			
- marketable securities	-	-	47,176
- unrealized gain on long-term investment	-	-	280,000
- Change in fair value of available-for-sale assets			
- marketable securities	7,473	(31,611)	(14,239)
- long-term investment	-	-	795,420
Recycling of gain on sale of long-term investment through other comprehensive income	-	-	(1,075,420)
Balance, end of period	$8,799	$1,326	$32,937

See accompanying notes to consolidated financial statements

MOUNTAIN PROVINCE DIAMONDS INC.
Consolidated Statement of Cash Flows
Nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

	(Nine months ended) December 31, 2009	(12 months ended) March 31, 2009	(12 months ended) March 31, 2008
Cash provided by (used in):			
Operating activities:			
Net income (loss) for the year	$(1,458,338)	$(1,537,590)	$165,531
Items not involving cash:			
Accretion on asset retirement obligation	190,064	-	-
Amortization	-	-	14,239
Future income tax recovery	(509,686)	(222,796)	(222,166)
Stock-based compensation (Note 6)	268,405	574,200	-
Gain on sale of long-term investment	-	-	(1,075,420)
Changes in non-cash working capital items			
Amounts receivable	(138,749)	65,980	139,668
Advances and prepaid expenses	30,326	(317)	(45,672)
Accounts payable and accrued liabilities	230,467	(21,367)	(205,721)
	(1,387,511)	(1,141,890)	(1,229,541)
Investing activities:			
Investment in Gahcho Kué Joint Venture	(2,215,704)	(177,393)	(13,496)
(Investment in) redemption of short-term investment	(9,501,782)	1,205,441	(912,377)
Proceeds from sale of investment	-	-	1,995,420
Acquisition of Camphor Ventures, net of cash acquired	-	-	(16,274)
	(11,717,486)	1,028,048	1,053,273
Financing activities:			
Shares issued for cash, net of costs	12,647,786	-	-
Share issued for options exercise	600,360	34,502	141,048
	13,248,146	34,502	141,048
Increase (decrease) in cash and cash equivalents	143,149	(79,340)	(35,220)
Cash, beginning of period	65,410	144,750	179,970
Cash, end of period	$208,559	$65,410	$144,750

See accompanying notes to consolidated financial statements

76

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

1. Nature of Operations and Going Concern:

The Company is in the process of developing and permitting its mineral properties primarily in conjunction with De Beers Canada Inc. ("De Beers Canada") (Note 5), and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The underlying value and recoverability of the amounts shown as "Interest In Gahcho Kué Joint Venture" is dependent upon the ability of the Company and/or its mineral property partner to discover economically recoverable reserves, to have successful permitting and development, and upon future profitable production or proceeds from disposition of the Company's mineral properties. Failure to discover economically recoverable reserves will require the Company to write-off costs capitalized to date.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Company's ability to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities is dependent on the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to fund its operations, and the future production or proceeds from developed properties.

The Company has incurred losses in the year ended December 31, 2009 amounting to $1,968,024, incurred negative cash flows from operations of $23,702, and will be required to obtain additional sources of financing to complete its business plans going into the future. With approximately $9,942,300 of cash and short-term investments at December 31, 2009, the Company has sufficient capital to finance its operations and the Company's costs of the Gahcho Kué Project for approximately six months (see also Note 5). The Company is currently investigating various sources of additional liquidity to increase the cash balances required for ongoing operations over the foreseeable future. These additional sources include, but are not limited to, share offerings, private placements, credit facilities, and debt, as well as exercises of outstanding options and warrants. However, there is no certainty that the Company will be able to obtain financing from any of those sources. As a result, there is substantial doubt as to the Company's ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

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

2. Significant Accounting Policies and Future Accounting Policy Changes:

Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(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. The Company's interest in the Gahcho Kué joint venture has been proportionally consolidated (see Note 5).

(b) Cash and short-term investments:

Cash consists of balances with banks and highly liquid short-term investments that are readily convertible to known amounts of cash with original maturities of three months or less when acquired. Short-term investments are investments with original maturities of greater than three months when acquired (see Note 4).

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

2. Significant Accounting Policies and Future Accounting Policy Changes (continued):

Significant Accounting Policies (continued):

(c) Marketable securities:

Marketable securities are considered to be available-for-sale securities and are carried at market value, which is also considered fair value. The market values of investments are determined based on the closing prices reported on recognized securities exchanges and over-the-counter markets. Such individual market values do not necessarily represent the realizable value of the total holding of any security, which may be more or less than that indicated by market quotations. When there has been a loss in the value of an investment in marketable securities that is determined to be other than a temporary decline, the investment is written down to recognize the loss. The changes in fair market value are recorded within the Statement of Accumulated Other Comprehensive Income.

(d) Interest In Gahcho Kué Joint Venture:

The Company considers its interest in the Gahcho Kué Project to be an investment in mineral properties, in accordance with CICA Handbook Section 3061, “Property, Plant and Equipment”, and additional Canadian accounting pronouncements and guidance.

Specifically, direct property acquisition costs, advance royalties, holding costs, field exploration, valuation work, and field supervisory costs to the extent they are incurred by the Company or the Gahcho Kué joint venture are deferred until the property is brought into production, at which time, the deferred costs will be amortized on a unit-of-production basis, or until the property is abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made. The recovery of costs of mining claims and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company and its partner De Beers Canada Inc. to obtain the necessary financing to complete development, success permitting, and future profitable production or proceeds from disposition of the property.

The Emerging Issues Committee of the CICA issued EIC-174 - “Mining Exploration Costs” which interprets how Accounting Guideline No. 11 entitled “Enterprises in the Development Stage” (“AcG-11”) affects mining companies with respect to the deferral of exploration costs. EIC-174 refers to CICA Handbook Section 3061. "Property, Plant and Equipment", paragraph .21, which states that for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. EIC-174 then states that a mining enterprise that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property, is not precluded from considering the exploration costs to have the characteristics of property, plant and equipment.

EIC-174 also sets forth the Committee’s consensus that a mining enterprise in the development stage is required to test the carrying value of a property for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. EIC-174 and AcG-11 then provide additional guidance as to the need for an assessment to determine whether a write-down is required. With respect to impairment of capitalized exploration costs, EIC-174 sets forth the Committee’s consensus that a mining enterprise in the development stage that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property, is not obliged to conclude that capitalized costs have been impaired. However, such an enterprise should consider the conditions set forth in AcG-11 and CICA Handbook sections relating to long-lived assets in determining whether subsequent write-down of capitalized exploration costs related to mining properties is required. Any resulting write-downs are to be charged to the statement of operations.

2. Significant Accounting Policies and Future Accounting Policy Changes (continued):

Significant Accounting Policies (continued):

The Company considers that costs in the nature of exploration costs incurred with respect to its investment in the Gahcho Kué Project have the characteristics of property, plant and equipment, and, accordingly, defers such costs. Furthermore, pursuant to EIC-174, deferred exploration costs would not automatically be subject to regular assessment of recoverability, unless conditions, such as those discussed in AcG 11, exist.

The Company's interest in Gahcho Kué Project is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the interest may not be recoverable. The net recoverable amount is based on estimates of undiscounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition.

The Company's interest in the Gahcho Kué joint venture has been proportionally consolidated (see Note 5).

(e) 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 units-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 December 31, 2009, the Company has consolidated its proportional interest in the asset retirement obligation of the Gahcho Kué joint venture (see Note 5).

(f) Stock-based compensation:

The Company applies the fair value method for stock-based compensation and other stock-based payments, and expenses the fair value of all stock options awarded, calculated using the Black-Scholes option pricing model, over the vesting period. Direct awards of stock are expensed based on the market price of the shares at the time of granting of the award. The Company estimates forfeitures of options on an ongoing basis.

(g) Income taxes:

The Company accounts for income taxes using the asset and liability method. 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.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

2. Significant Accounting Policies and Future Accounting Policy Changes (continued):

Significant Accounting Policies (continued):

(h) (Loss) earnings per share:

Basic (loss) earnings per share is calculated by dividing the (loss) earnings attributable to common shareholders by the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options. Diluted (loss) earnings per share is similar to basic (loss) 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.

(i) Foreign currency translation:

The functional currency of the Company and its subsidiaries is considered to be the Canadian dollar. Foreign currency transactions entered into by the Company and financial statements of integrated foreign operations are translated using the temporal method. Under this method, 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, non-monetary assets and liabilities are translated at historic rates of exchange, and statement of operations items are translated at the average exchange rates prevailing during the year. Exchange gains and losses on foreign currency transactions and foreign currency denominated balances are included in the statement of operations.

(j) Financial instruments:

The fair values of the Company's cash, short-term investment, amounts receivable, advances and accounts payable and accrued liabilities approximate their carrying values because of the immediate or short-term to maturity of these financial instruments. The fair value of marketable securities and long-term investments is disclosed in Note 3.

(k) 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 if capitalization criteria are met, asset retirement obligations, the assumptions used in determining the fair value of stock options and warrants, and the calculations of future income tax assets. Actual results could materially differ from these estimates.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

2. Significant Accounting Policies and Future Accounting Policy Changes (continued):

Newly Adopted Accounting Standards

Effective April 1, 2009, and during the year ended December 31, 2009, the Company adopted the following new accounting standards under Canadian GAAP for interim and annual financial statements:

(l) Capital Disclosures

New CICA Accounting Handbook Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital, and how it is managed and requires the following disclosures:

(i) qualitative information about the entity’s objectives, policies and processes for managing capital;
(ii) summary quantitative data about what it manages as capital;
(iii) whether during the period it complied with any externally imposed capital requirements to which it is subject; and
(iv) when it has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The Company has included disclosures recommended by the new Handbook Section in Note 8 to the consolidated financial statements for the year ended December 31, 2009.

(m) Financial Instruments

New CICA Accounting Handbook Sections 3862, “Financial Instruments - Disclosures”, and 3863, “Financial Instruments - Presentation”, replace existing Handbook Section 3861, “Financial Instruments - Disclosure and Presentation”, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements. The revised and enhanced disclosure requirements are intended to enable users to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook Sections in Note 4 to the consolidated financial statement for the year ended December 31, 2009.

(n) Mining Exploration Costs

On March 27, 2009, the Emerging Issues Committee issued Abstract EIC-174 effective immediately. In this Abstract, the Committee reached a consensus that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Adoption of this section did not have a material impact on the Company’s consolidated financial statements.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

2. Significant Accounting Policies and Future Accounting Policy Changes (continued):

Newly Adopted Accounting Standards (continued):

(o) Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which is required to be adopted for fiscal years beginning on or after October 1, 2008. This section establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition by profit-oriented enterprises. The adoption of this new standard did not have a material effect on the consolidation financial statements.

(p) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Company adopted Emerging Issues Committee ("EIC") Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"), effective immediately. EIC-173 requires the Company to consider the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. Adoption of this Abstract did not have a material impact on the Company's consolidated financial statements

Future Accounting Policy Changes:

(q) Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests

The CICA issued Handbook Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", all of which are effective for years beginning on or after January 1, 2011. These Handbook Sections replace 1581, "Business Combinations" and 1600, "Consolidated Financial Statements" and establish a new Section for accounting for non-controlling interest in subsidiaries. The Company is currently evaluating the impact of these new standards.

3. Marketable Securities:

The quoted market value of remaining marketable securities at December 31, 2009 was $13,431 (March 31, 2009 - $5,958). The original cost of these marketable securities at December 31, 2009 was $4,632 (March 31, 2009 - $4,632).

The Company has assessed the risk associated with its available-for-sale securities to include market risk, since the market value of the available-for-sale securities is subject to fluctuations.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

4. Financial Instruments:

Fair Value Estimation

During 2009, CICA Handbook Section 3862, Financial Instruments - Disclosures, was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets and liabilities
Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 - Inputs that are not based on observable market data

The Company's financial assets as at December 31, 2009 consist of short-term investments and marketable securities which are classified as Level 1.

Financial Assets and Liabilities

Information regarding the Company's financial assets and liabilities is summarized as follows:

		December 31, 2009		March 31, 2009
	Fair Value	Carrying Value	Fair Value	Carrying Value
Held-for-trading -				
Cash	$ 208,559	$ 208,559	$ 65,410	$ 65,410
Short-term investments	9,733,718	9,733,718	231,936	231,936
	$ 9,942,277	$ 9,942,277	$ 297,346	$ 297,346
Available-for-sale				
Marketable securities	$ 13,431	$ 13,431	$ 5,958	$ 5,958
Loans and receivables				
Amounts receivable	$ 269,979	$ 269,979	$ 37,419	$ 37,419
Other liabilities				
Accounts payable and accrued liabilities	$ 1,949,489	$ 1,949,489	$ 191,711	$ 191,711

The short-term investments at December 31, 2009 are cashable guaranteed investment certificates ("GICs") held with a major Canadian financial institution purchased with original maturities in September 2010 and December 2010. The GICs held at December 31, 2009 are carried at fair market value. Given the GICs' low risk and the ability to cash them at any time, the fair market value recorded is estimated to be reasonably approximated by the amount of cost plus accrued interest. There is no restriction on the use of the short-term investments.

The fair values of the amounts receivable and accounts payable and accrued liabilities are considered to be the same as their carrying values.

4. Financial Instruments (continued):

Financial Instrument Risk Exposure

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at the balance sheet date under its financial instruments is summarized as follows:

		December 31, 2009
Amounts receivable -		
Currently due	$	269,979
Past due by 90 days or less, not impaired		-
Past due by greater than 90 days, not impaired		-
	$	269,979
Cash		208,559
Short-term investments		9,733,718
	$	9,942,277

All of the Company's cash and short-term investments are held with a major Canadian financial institution and thus the exposure to credit risk is considered insignificant. The short-term investments are cashable in whole or in part with interest at any time to maturity. Management actively monitors the Company's exposure to credit risk under its financial instruments, including with respect to amounts receivable. The Company considers the risk of loss to be remote and significantly mitigated due to the financial strength of the party from whom the receivables are due - the Canadian government for goods and services tax refunds receivable in the amount of $184,250 and from the government of North West Territories for fuel tax rebate of $85,729.

The Company's current policy is to invest excess cash in guaranteed investment certificates issued by Canadian financial institutions. It periodically monitors the investments it makes and is satisfied with the credit ratings of the counter party.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support its normal operating requirements. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in Note 9. The Company's financial liabilities are comprised of its accounts payable and accrued liabilities, all of which are due within the next 12 month period. Other than minimal office space rental commitments, there are no other operating lease commitments.

As identified in Note 1, the Company's ability to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities is dependent on the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to fund its operations, and the future production or proceeds from developed properties.

The Company has incurred losses and negative cash flows from operations of $1,968,024 and $23,702 respectively in the year ended December 31, 2009. With approximately $9,942,300 of cash and short-term investment at December 31, 2009, the Company has sufficient capital to finance its operations for approximately six months, after which it will be required to obtain additional sources of financing to complete its future business plans (see Note 1).

4. Financial Instruments (continued):

Financial Instrument Risk Exposure (continued)

Market Risk

The Company's marketable securities are classified as available-for-sale, and are subject to changes in the market. They are recorded at fair value in the Company's financial statements, based on the closing market value at the end of the period for each security included. The original cost of the marketable securities is $4,632. The Company's exposure to market risk is not considered to be material.

Foreign Currency Risk

The Company is exposed to foreign currency risk at the balance sheet date through the following financial assets and liabilities, which are denominated in US dollars:

		December 31, 2009
Cash	$	7,430
Amounts receivable		-
Accounts payable and accrued liabilities		(18,298)
Net exposure	$	(10,868)

Based on the above net exposure at December 31, 2009, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an approximately $1,087 increase or decrease respectively in both net and comprehensive loss. The Company currently has only limited exposure to fluctuations in exchange rates between the Canadian and US dollar as significantly all of its operations are located in Canada. Accordingly, the Company has not employed any currency hedging programs during the current period.

Interest Rate Risk

The Company has no significant exposure at December 31, 2009 to interest rate risk through its financial instruments. The short-term investments are at fixed rates of interest that do not fluctuate during the remaining term. The Company has no interest-bearing debt.

5. Interest in Gahcho Kué Joint Venture:

	December 31, 2009	March 31, 2009
Opening balance	$ 65,161,533	$ 64,984,140
Changes in the period		
Additional mineral interest resulting from the 2009 Gahcho Kue Joint Venture Agreement	4,971,252	-
Technical consulting	18,384	164,638
Mining lease costs	9,540	12,755
Sunk cost repayment	1,290,838	-
Company portion of feasibility study costs	1,339,304	-
Company portion of project costs	646,735	-
Total change in the period	8,276,053	177,393
Balance at December 31, 2009	$ 73,437,586	$ 65,161,533

The Company holds a 49% interest in the Gahcho Kué Project (the "Project") located in the District of Mackenzie, Northwest Territories, Canada, and De Beers Canada Inc. ("De Beers Canada") holds the remaining 51% interest. The joint venture between the Company and De Beers Canada is governed by an agreement entered into on July 3, 2009 (the "2009 Agreement"). The Company considers that the Gahcho Kué joint venture is a related party under CICA Handbook Section 3840, "Related Party Transactions".

Under a previous agreement (the "2002 Agreement") in effect until July 3, 2009, De Beers Canada carried all costs incurred by the Project, and De Beers Canada has no recourse to the Company for repayment of funds until, and unless, the Project is built, in production, and generating net cash flows.

On July 3, 2009, the Company entered the 2009 Agreement with De Beers Canada (jointly, the "Participants") under which:

i. The Participants' continuing interests in the Gahcho Kué Project will be Mountain Province 49% and De Beers Canada 51%, with Mountain Province's interest no longer subject to the dilution provisions in the 2002 Agreement except for normal dilution provisions which are applicable to both Participants;
ii. Each Participant will market their own proportionate share of diamond production in accordance with their participating interest;
iii. Each Participant will contribute their proportionate share to the future project development costs;
iv. Material strategic and operating decisions will be made by consensus of the Participants as long as each Participant has a participating interest of 40% or more;
v. The Participants have agreed that the sunk historic costs to the period ending on December 31, 2008 will be reduced and limited to $120 million;

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

5. Interest in Gahcho Kué Joint Venture (continued):

vi. Mountain Province will repay De Beers Canada $59 million (representing 49% of an agreed sum of $120 million) in settlement of the Company's share of the agreed historic sunk costs on the following schedule:

- $200,000 on execution of the 2009 Agreement (Mountain Province's contribution to the 2009 Joint Venture expenses to date of execution of the 2009 Agreement - paid; recorded as "company portion of project costs");
- Up to $5.1 million in respect of De Beers Canada's share of the costs of a feasibility study to be commissioned as soon as possible; ($1,290,838 recorded to December 31, 2009, recorded as "sunk cost repayment").
- $10 million upon the earlier of the completion of a feasibility study with a 15% IRR and/or a decision to build;
- $10 million following the issuance of the construction and operating permits;
- $10 million following the commencement of commercial production; and
- The balance within 18 months following commencement of commercial production;

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

Mountain Province has agreed that the Company's marketing rights under the 2009 Agreement may be diluted if the Company defaults on certain of the repayments described above if and when such payments become due.

The 2009 Agreement's provision for consensus decision-making for material strategic and operating decisions provides the Company with joint control for the Gahcho Kué Project with De Beers Canada, and the Company now accounts for the Project as a Joint Venture. Accordingly, the Company has determined its proportionate share (49%) of the assets, liabilities, revenues and expenses of the joint venture, and recorded them in these consolidated financial statements effective July 4, 2009. Below is a summarized balance sheet of what was recorded effective July 4, 2009 as a result of the 2009 Agreement:

	July 4, 2009
Assets	
Current assets	$ 46,662
Fixed assets	-
Interest in Gahcho Kué Joint Venture	5,214,741
Total Assets	$ 5,261,403
Liabilities	
Accounts payable and accruals	$ 347,592
Asset retirement obligations	4,913,811
Total Liabilities	$ 5,261,403

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

5. Interest in Gahcho Kué Joint Venture (continued):

Summarized below are the results of operations, cash flows and financial position relating to the Company's proportional interest (49%) in the accounts of the Gahcho Kué joint venture for the nine months ended December 31, 2009:

Results of Operations	Nine months ended December 31, 2009
Revenues	$ -
Expenses	210,789
Proportionate share of net loss	$ 210,789

Cash Flows	Nine months ended December 31, 2009
Cash flow - operating activities	$ (20,725)
Cash flow - financing activities	-
Cash flow - investing activities	20,725
Proportionate share of change in cash and cash equivalents	$ -

Financial Position	December 31, 2009
Current assets	$ 106,061
Long-term assets	66,000,782
Current liabilities	(163,502)
Long-term liabilities	(5,103,875)
Proportionate share of net assets	$ 60,839,466

5. Interest in Gahcho Kué Joint Venture (continued):

Asset Retirement Obligation

The fair value of the Gahcho Kué asset retirement obligation was calculated using the total undiscounted cash flows required to settle estimated obligations (estimated to be approximately $28.9 million), expected timing of cash flow payments required to settle the obligations between 2011 and 2028, a credit-adjusted risk-free discount rate of 7.8%, and an inflation rate of 2.3%.

The balance of the asset retirement obligation is as follows:

		Amount
Balance, March 31, 2009	$	-
Asset retirement obligation recorded in the current period as a result of revised and restated joint venture agreement		4,913,811
Accretion recorded during the period		190,064
Balance, December 31, 2009	$	5,103,875

There is no security posted against the Asset Retirement Obligation as at December 31, 2009.

6. Share Capital and Contributed Surplus:

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued and fully paid:

	Number of shares		Amount
Balance, March 31, 2007	55,670,715	$	66,579,083
Exercise of stock options	147,350		141,048
Value of stock options exercised	-		530,756
Issuance of shares upon investment in Camphor Ventures	4,052,816		18,330,842
Balance, March 31, 2008	59,870,881	$	85,581,729
Exercise of stock options	61,500		34,502
Value of stock options exercised	-		254,610
Balance, March 31, 2009	59,932,381	$	85,870,841
Exercise of stock options	365,365		600,360
Value of stock options exercised	-		294,903
Issuance of shares from financings, net of costs	6,334,000		10,546,610
Balance, December 31, 2009	66,631,746	$	97,312,714

On August 4, 2009, the Company completed a private placement. An aggregate of 3,000,000 Units of the Company have been issued at a price of $1.50 per Unit for aggregate gross proceeds of $4,500,000. Each Unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $2.00 for a period of 18 months. (See also Note 6(d) for the value assigned to the warrants). Two related parties, a director and an officer, participated in the private placement for a total of 40,000 Units.

On December 8, 2009, the Company announced that it had closed its bought deal financing (the “Offering”) under which the Company issued 3,334,000 units (“Units”) in consideration for $2.70 per Unit to raise gross proceeds of $9,001,800. Each Unit is comprised of one common share and one-half of a common share purchase warrant, with each whole warrant entitling the holder to acquire one additional common share at an exercise price of C$3.20 per common share for a period of 18 months. As well, the underwriters of the bought deal financing subscribed to 50,000 common share purchase warrants for $0.268 each for gross proceeds of $13,400. ((See also Note 6(d) for the value assigned to the warrants). One related party, an officer of the Company, participated in the bought deal financing for 100,000 units.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

6. Share Capital and Contributed Surplus (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, and subsequently on September 27, 2002. On September 10, 2009, at the Company's annual and special meeting of shareholders, the shareholders approved the amended stock option plan which, among other things, allows for the maximum number of shares that may be reserved for issuance under the amended stock option plan to be 10% of the Company's issued and outstanding shares at the time of the grant. The Board of Directors has the authority and discretion to grant stock option awards within the limits identified in the Plan, which includes provisions limiting the issuance of options to insiders and significant shareholders to maximums identified in the Plan. At the time of approval of the amended stock option plan, the aggregate maximum number of shares pursuant to options granted under the Plan will not exceed 6,309,774 shares, and as at December 31, 2009, there were 5,075,139 shares available to be issued under the Plan.

The following presents the continuity of stock options outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, March 31, 2007	410,000	$ 2.73
Granted	198,850	0.92
Exercised	(147,350)	1.05
Balance, March 31, 2008	461,500	2.47
Granted	900,000	1.26
Exercised	(61,500)	0.56
Balance, March 31, 2009	1,300,000	$ 1.72
Granted	300,000	1.72
Exercised	(365,365)	1.64
Balance, December 31, 2009	1,234,635	$ 1.75

The following are the stock options outstanding and exercisable at December 31, 2009.

Expiry Date	Black-Scholes Value	Number of Options	Weighted Average Remaining Life	Exercise Price
November 1, 2010	$ 180,100	100,000	0.84 years	$ 2.63
January 30, 2011	321,100	100,000	1.08 years	4.50
November 23, 2013	468,697	734,635	3.90 years	1.26
August 25, 2014	268,405	300,000	4.65 years	1.72
	$ 1,238,302	1,234,635	3.61 years	

6. Share Capital and Contributed Surplus (continued):

(c) Stock options (continued):

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:

Fiscal Year:		December 31, 2009			March 31, 2009			March 31, 2008	
Dividend yield		0	%		0	%		0	%
Expected volatility		59	%		55	%		34%-64	%
Risk-free interest rate		2.54	%		2.57	%		4.64	%
Expected lives		5 years			5 years			2.83-10.33 months	
Weighted average fair value of options issued	$	0.87		$	0.64		$	3.58-$4.14	

On August 25, 2009, the Board of Directors approved a grant of 300,000 options to the President and Chief Executive Officer of the Company as part of a renegotiation of his consulting agreement with the Company. The granting of these options was subject to the approval by the shareholders of the amended stock option plan at the Company's September 10, 2009 annual and special meeting, and regulatory approval of the amended stock option plan, which was obtained on October 2, 2009. The grant date was August 25, 2009, the exercise price is $1.72, and options have five year term expiring August 24, 2014. The Company has valued these options at $268,405 using the Black-Scholes options pricing model with the assumptions noted above, and expensed them in October 2009.

(d) Warrants

The Company's financing which closed on August 4, 2009 involved an aggregate of 3,000,000 Units of the Company at a price of $1.50 per Unit. Each Unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $2.00 per common share for a period of 18 months. The warrants were valued, before costs, at $819,000.

The Company's bought deal financing which closed on December 8, 2009 involved an aggregate of 3,334,000 Units at a price of $2.70 per Unit. Each Unit is comprised of one common share of the Company and one-half of a common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $3.20 per common share for a period of 18 months. In addition, the underwriters of the bought deal financing were issued 50,000 common share purchase warrants for consideration of $0.268 each with the same exercise price of $3.20 per common share and the same period of 18 months. The warrants were valued, before costs, at $1,216,974.

The following presents the continuity of warrants outstanding:

	Number of Warrants		Amount
Balance, March 31, 2009	-	$	-
Issued, net of costs	3,217,000		1,870,564
Balance, December 31, 2009	3,217,000	$	1,870,564

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

6. Share Capital and Contributed Surplus (continued):

(d) Warrants (continued):

The following is a summary of warrants outstanding at December 31, 2009:

Date of Issue	Number of Warrants	Exercise Price	Expiry Date
August 4, 2009	1,500,000	$ 2.00	February 5, 2011
December 8, 2009	1,717,000	$ 3.20	June 8, 2011
Total	3,217,000		

The warrants value reflected in these consolidated financial statements was calculated using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	80%-87%
Risk-free interest rate	0.65%-0.87%
Expected lives	18 months
Fair value of warrants	$0.55-$0.72

(e) Contributed surplus:

	Amount
Balance, March 31, 2007	701,626
Value of options issued to Camphor option holders	774,340
Value on exercise of stock options transferred to share capital	(530,756)
Balance, March 31, 2008	945,210
Recognition of stock-based compensation expense	574,200
Value on exercise of stock options transferred to share capital	(254,610)
Balance, March 31, 2009	1,264,800
Recognition of stock-based compensation expense	268,405
Value on exercise of stock options transferred to share capital	(294,903)
Balance, December 31, 2009	$ 1,238,302

(f) Shareholder Rights Plan:

On August 4, 2006, the Board of Directors of the Company approved a Shareholder Rights Plan (the “Rights Plan”). The Rights Plan is intended to provide all shareholders of the Company with adequate time to consider value enhancing alternatives to a take-over bid and to provide adequate time to properly assess a take-over bid without undue pressure. The Rights Plan is also intended to ensure that the shareholders of the Company are provided equal treatment under a takeover bid.

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

7. Income Taxes:

Income tax recovery differs from the amounts that would have been computed by applying the combined federal and provincial tax rates of 26.5% for the nine month period ended December 31, 2009 (year ended March 31 2009 - 26.5% and year ended March 2008 - 26.5%) to loss before income taxes. The reasons for the differences are primarily as a result of the following:

	(Nine months ended) December 31, 2009	(12 months ended) March 31, 2009	(12 months ended) March 31, 2008
Loss before income taxes	$ 1,968,024	$ 1,760,386	$ 56,635
Tax recovery calculated using statutory rates	521,526	466,500	15,000
(Expenses not deductible for taxation)/earnings not subject to taxation	(71,127)	(152,163)	207,166
Other (return to provision adjustments)	59,287	(91,541)	-
	509,686	222,796	222,166
Valuation allowance	-	-	-
	$ 509,686	$ 222,796	$ 222,166

The components that give rise to future income tax assets and future tax liabilities are as follows:

	(Nine months ended) December 31, 2009	(12 months ended) March 31, 2009	(12 months ended) March 31, 2008
Interest in Gahcho Kué Joint Venture	$ (6,114,483)	$ (6,369,281)	$ (6,131,529)
Loss carry forwards	1,208,362	992,556	872,259
	(4,906,121)	(5,376,725)	(5,259,270)
Valuation allowance	(270,760)	(309,842)	(650,093)
Net future income tax asset (liability)	$ (5,176,881)	$ (5,686,567)	$ (5,909,363)

At December 31, 2009, the Company has available losses for income tax purposes totaling approximately $4.6 million, expiring at various times from 2010 to 2029. Of the available losses, $0.8 million are subject to acquisition of control rules which may restrict their future deductibility. The Company also has available resource tax pools of approximately $45 million, which may be carried forward and utilized to reduce future taxable income. Included in the $45 million of tax pools is $29 million which can only be utilized against taxable income from specific mineral properties.

8. Capital Management:

The Company considers its capital structure to consist of share capital, contributed surplus and options. The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The property in which the Company currently has an interest is in the development and permitting stage; as such the Company is dependent on external equity financing to fund its activities. In order to carry out the planned management of our property and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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

As disclosed in Note 1, these financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“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) Interest in Gahcho Kué Joint Venture:
Under Canadian GAAP, the Company accounts for certain investments using the proportionate consolidation basis of accounting whereby the Company's proportionate share of assets, liabilities, revenues, expenses and cash flows are included in the Company's financial statements. U.S. GAAP does not allow the use of proportionate consolidation, and requires that such investments be recorded on an equity basis of accounting. However, pursuant to an exemption provided by the SEC, the Company is not required to recast their consolidated financial statements on an equity accounted for basis if information on the balances that have been proportionately consolidated is provided (see Note 5).

(b) Recent accounting pronouncements:
In May 2009, the FASB issued “Subsequent Events” (ASC No. 855). ASC No. 855 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Statement sets forth:
1. The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.
2. The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.
3. The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

ASC No. 855 is effective for the Company’s fiscal years and interim periods beginning on or after May 1, 2009. The adoption of ASC No. 855 will not have any impact on the Company’s consolidated financial statements.

(c) Reconciliation:
The effects 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 are summarized as follows:

	December 31, 2009	March 31, 2009
Total assets:		
Total assets, under Canadian GAAP	$ 83,746,546	$ 65,559,505
Adjustment for deferred exploration costs (Note 9(a))	(39,484,713)	(31,208,660)
Total assets, under US GAAP	$ 44,261,833	$ 34,350,845
Shareholders’ equity:		
Shareholders’ equity, under Canadian GAAP	$ 71,516,301	$ 59,681,227
Adjustment for deferred exploration costs (Note 9a)	(39,484,713)	(31,208,660)
Shareholders’ equity, under US GAAP	$ 32,031,588	$ 28,472,567

MOUNTAIN PROVINCE DIAMONDS INC.
Notes to Consolidated Financial Statements
For the nine months ended December 31, 2009, and the years ended March 31, 2009 and 2008
(In Canadian dollars)

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

(d) Reconciliation (continued):

	(Nine months ended) December 31, 2009	(12 months ended) March 31, 2009	(12 months ended) March 31, 2008
(Loss) income and (loss) income per share for the year:			
(Loss) income for the year, under Canadian GAAP	$ (1,458,338)	$ (1,537,590)	$ 165,531
Adjustment for deferred exploration expenditures (Note 9(a))	(3,369,626)	(177,393)	(13,496)
(Loss) income for the year, under US GAAP	(4,827,924)	(1,714,983)	152,035
Other Comprehensive income:			
Change in fair value of available for sale marketable securities	7,473	(31,611)	(14,239)
Change in fair value of long-term investments	-	-	(280,000)
Comprehensive loss for the year under US GAAP	$ (4,820,491)	$ (1,746,594)	$ (142,204)
Basic and diluted (loss) income per share, under US GAAP	$ (0.08)	$ (0.03)	$ 0.00
Cash used in operating activities:			
Cash used in operating activities, under Canadian GAAP	$ (1,387,511)	$ (1,141,890)	$ (1,229,541)
Adjustment for deferred exploration costs (Note 9(a))	(2,215,704)	(177,393)	(13,496)
Cash used in operating activities, under US GAAP	$ (3,603,215)	$ (1,319,283)	$ (1,243,037)
Cash provided (used) in investing activities:			
Cash provided (used) in investing activities, under Canadian GAAP	$ (11,717,486)	$ 1,028,048	$ 1,053,273
Adjustment for deferred exploration costs (Note 9(a))	2,215,704	177,393	13,496
Cash provided (used) in investing activities under US GAAP	$ (9,501,782)	$ 1,205,441	$ 1,066,769

97