

# Mountain Province Diamonds Inc

Charter of the

Audit Committee of the Board of Directors

May 29, 2006

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## **Mandate**

### **A. Role and Objectives**

The Audit Committee (the "Committee") is a committee of the Board of Directors (the "Board") of Mountain Province Diamonds Inc ("MPV") established for the purpose of overseeing the accounting and financial reporting process of MPV and external audits of the consolidated financial statements of MPV. In connection therewith, the Committee assists the Board in fulfilling its oversight responsibilities in relation to MPV's internal accounting standards and practices, financial information, accounting systems and procedures, financial reporting and statements and the nature and scope of the annual external audit. The Committee also recommends for Board approval MPV's audited annual consolidated financial statements and other mandatory financial disclosure.

MPV's external auditor is accountable to the Board and the Committee as representatives of shareholders of MPV. The Committee shall be directly responsible for overseeing the relationship of the external auditor. The Committee shall have such access to the external auditor as it considers necessary or desirable in order to perform its duties and responsibilities. The external auditor shall report directly to the Committee.

The objectives of the Committee are as follows:

1. to be satisfied with the credibility and integrity of financial reports;
2. to support the Board in meeting its oversight responsibilities in respect of the preparation and disclosure of financial reporting, including the consolidated financial statements of MPV;
3. to facilitate communication between the Board and the external auditor and to receive all reports of the external auditor directly from the external auditor;
4. to be satisfied with the external auditor's independence and objectivity; and

5. to strengthen the role of independent directors by facilitating in-depth discussions between members of the Committee, management and MPV's external auditor.

**B. Composition**

1. The Committee shall comprise at least three directors, none of whom shall be an officer or employee of MPV or any of its subsidiaries or any affiliate thereof. Each Committee member shall satisfy the independence, financial literacy and experience requirements of applicable securities laws, rules or guidelines, any applicable stock exchange requirements or guidelines and any other applicable regulatory rules. In particular, each member of the Committee shall have no direct or indirect material relationship with MPV or any affiliate thereof which could reasonably interfere with the exercise of the member's independent judgment. Determinations as to whether a particular director satisfies the requirements for membership on the Committee shall be made by the full Board.
2. Members of the Committee shall be appointed by the Board. Each member shall serve until his successor is appointed, unless he shall resign or be removed by the Board or he shall otherwise cease to be a director of MPV.
3. The Chair of the Committee may be designated by the Board or, if it does not do so, the members of the Committee may elect a Chair by vote of a majority of the full Committee membership. The Committee Chair shall satisfy the independence, financial literacy and experience requirements as described above.
4. The Committee shall have access to such officers and employees of MPV and to such information respecting MPV as it considers necessary or advisable in order to perform its duties and responsibilities.

**C. Meetings**

1. At all meetings of the Committee, every question shall be decided by a majority of the votes cast. In case of an equality of votes, the matter will be referred to the Board for decision.
2. A quorum for meetings of the Committee shall be a majority of its members.
3. Meetings of the Committee shall be scheduled at least quarterly and at such other times during each year as it deems appropriate. Minutes of all meetings of the Committee shall be taken. The CFO shall attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Committee Chair. The Chair of the Committee shall hold *in camera* sessions of the Committee, without management present, at every meeting.

4. The Committee shall report the results of meetings and reviews undertaken and any associated recommendations to the Board.
5. The Committee shall meet periodically with MPV's external auditor in connection with the preparation of the annual consolidated financial statements and otherwise as the Committee may determine, part or all of each such meeting to be in the absence of management.

### **Responsibilities**

As discussed above, the Committee is established to assist the Board in fulfilling its oversight responsibilities with respect to the accounting and financial reporting processes of MPV and external audits of MPV's consolidated financial statements. In that regard, the Committee shall:

1. satisfy itself on behalf of the Board with respect to MPV's internal control systems including identifying, monitoring and mitigating business risks as well as compliance with legal, ethical and regulatory requirements. The Committee shall also review with management, the external auditor and, if necessary, legal counsel, any litigation, claim or other contingency (including tax assessments) that could have a material effect on the financial position or operating results of MPV (on a consolidated basis), and the manner in which these matters may be, or have been, disclosed in the financial statements;
2. review with management and the external auditor the annual consolidated financial statements of MPV, the reports of the external auditor thereon and related financial reporting, including Management's Discussion and Analysis and any earnings press releases, (collectively, "Annual Financial Disclosures") prior to their submission to the Board for approval. This process should include, but not be limited to:
  - (a) reviewing changes in accounting principles, or in their application, which may have a material impact on the current or future year's financial statements;
  - (b) reviewing significant accruals, reserves or other estimates;
  - (c) reviewing accounting treatment of unusual or non-recurring transactions;
  - (d) reviewing the adequacy of any reclamation fund;
  - (e) reviewing disclosure requirements for commitments and contingencies;
  - (f) reviewing financial statements and all items raised by the external auditor, whether or not included in the financial statements; and
  - (g) reviewing unresolved differences between MPV and the external auditor.

Following such review, the Committee shall recommend to the Board for approval all Annual Financial Disclosures;

3. review with management all interim consolidated financial statements of MPV and related financial reporting, including Management's Discussion and Analysis and any earnings press releases, (collectively "Quarterly Financial Disclosures") and, if thought fit, approve all Quarterly Financial Disclosures;
4. be satisfied that adequate procedures are in place for the review of MPV's public disclosure of financial information extracted or derived from MPV's financial statements, other than Annual Financial Disclosures or Quarterly Financial Disclosures, and shall periodically assess the adequacy of those procedures;
5. review with management and recommend to the Board for approval, any financial statements of MPV which have not previously been approved by the Board and which are to be included in a prospectus of MPV;
6. review with management and recommend to the Board for approval, MPV's Annual Information Form;
7. with respect to the external auditor:
  - (a) receive all reports of the external auditor directly from the external auditor;
  - (b) discuss with the external auditor;
    - (i) critical accounting policies;
    - (ii) alternative treatments of financial information within GAAP discussed with management (including the ramifications thereof and the treatment preferred by the external auditor); and
    - (iii) other material, written communication between management and the external auditor;
  - (c) consider and make a recommendation to the Board as to the appointment or re-appointment of the external auditor, being satisfied that such auditor is a participant in good standing pursuant to applicable securities laws;
  - (d) review the terms of engagement of the external auditor, including the appropriateness and reasonableness of the auditor's fees and make a recommendation to the Board as to the compensation of the external auditor;
  - (e) when there is to be a replacement of the external auditor, review with management the reasons for such replacement and the

information to be included in any required notice to securities regulators and recommend to the Board for approval the replacement of the external auditor along with the content of any such notice;

- (f) oversee the work of the external auditor in performing its audit or review services and oversee the resolution of any disagreements between management and the external auditor;
  - (g) review and discuss with the external auditor all significant relationships that the external auditor and its affiliates have with MPV and its affiliates in order to determine the external auditor's independence, including, without limitation:
    - (i) requesting, receiving and reviewing, on a periodic basis, written or oral information from the external auditor delineating all relationships that may reasonably be thought to bear on the independence of the external auditor with respect to MPV;
    - (ii) discussing with the external auditor any disclosed relationships or services that the external auditor believes may affect the objectivity and independence of the external auditor; and
    - (iii) recommending that the Board take appropriate action in response to the external auditor's information to satisfy itself of the external auditor's independence;
  - (h) as may be required by applicable securities laws, rules and guidelines, either:
    - (i) pre-approve all non-audit services to be provided by the external auditor to MPV (and its subsidiaries, if any), or, in the case of *de minimus* non-audit services, approve such non-audit services prior to the completion of the audit; or
    - (ii) adopt specific policies and procedures for the engagement of the external auditor for the purposes of the provision of non-audit services;
  - (i) review and approve the hiring policies of MPV regarding partners, employees and former partners and employees of the present and former external auditor of MPV;
8. (a) establish procedures for:
- (i) the receipt, retention and treatment of complaints received by MPV regarding accounting, internal accounting controls or auditing matters; and

- (ii) the confidential, anonymous submission by employees of MPV of concerns regarding questionable accounting or auditing matters; and
  - (b) review with the external auditor its assessment of the internal controls of MPV, its written reports containing recommendations for improvement, and MPV's response and follow-up to any identified weaknesses;
- 9. with respect to risk management, be satisfied that MPV has implemented appropriate systems of internal control over financial reporting (and review management's assessment thereof) to ensure compliance with any applicable legal and regulatory requirements;
- 10. review annually with management and the external auditor and report to the Board on insurable risks and insurance coverage; and
- 11. engage independent counsel and other advisors as it determines necessary to carry out its duties and set and pay the compensation for any such advisors.