WWW.KENNADYDIAMONDS.COM

Management's Discussion and Analysis

For the Year Ended December 31, 2016

TSXV: KDI

KENNADY DIAMONDS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS Page

This Management's Discussion and Analysis ("MD&A") of April 6, 2017 provides a review of the financial performance of Kennady Diamonds Inc. (the "Company" or "Kennady Diamonds" or "KDI") and should be read in conjunction with the audited financial statements for the years ended December 31, 2016 and 2015. Financial filings and additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com or at the Company's website www.kennadydiamonds.com.

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

All amounts are expressed in Canadian dollars unless otherwise stated.

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

COMPANY OVERVIEW

Kennady Diamonds is a Canadian-based resource company that was incorporated on February 27, 2012 under the laws of the Province of Ontario. Kennady Diamonds currently holds a 100% interest in 22 federal leases and 58 claims in the Kennady North diamond project.

Large diameter reverse circulation drilling and bulk sampling is currently underway on the Company's properties. At this time the Company has not generated any revenue.

Kennady Diamonds commenced trading on the TSX Venture Exchange on July 10, 2012 under the ticker symbol "KDI". The Company's registered office and its principal place of business is 161 Bay Street, Suite 1410, P.O. Box 216, Toronto, ON, Canada, M5J 2S1.

HIGHLIGHTS

During the third quarter, the bulk sample recovered during the winter 2016 Program was processed for diamonds using dense media separation ('DMS') technology at the Geoanalytical Laboratories Diamond Services of the Saskatchewan Research Council ('SRC'). The 612.0 tonne bulk sample from Kelvin was comprised of 32 large diameter drill holes from the north lobe. In addition, two large-diameter RC holes were completed at Faraday 2 to obtain 21.1 tonnes of kimberlite to assess commercial diamond content.

A total of 1,278 carats of diamonds (+0.85mm) were recovered from the 612.0 tonne Kelvin sample for a sample grade of 2.09 carats per tonne. Forty-four diamonds of one carat or greater were recovered, with the largest stone being a 3.43 carat white/colourless transparent octahedral twin with no inclusions.

A total of 56.64 carats of diamonds (+0.85mm) were recovered from the 21.1 tonne sample from Faraday 2 for a sample grade of 2.69 carats per tonne. Four diamonds of one carat or greater were recovered, with the largest stone being a 1.90 carat grey transparent aggregate with inclusions. Faraday 2 currently measures over 480 meters in the long dimension and extends in subsurface onto land.

The Company retained the services of WWW International Diamond Consultants (Antwerp, Belgium) to provide an independent valuation of the Kelvin bulk sample diamonds, and also to develop size frequency distribution and revenue models. This work was implemented in Q3 2016 and the results were received in early November 2016.

Detailed logging and petrographic studies were completed on the Kelvin kimberlite in Q3 2016 and the geological model was updated with the diamond grade and valuation results, allowing the Company to declare a maiden resource estimate for the Kelvin kimberlite. On December 12, 2016, the Company announced that an Indicated Mineral Resource of 13.62 million carats of diamonds is contained in 8.50 million tonnes of kimberlite, with an overall grade of 1.60 carats per tonne and an average value of US$63 per carat using a bottom cutoff size of 1 mm. The resource was determined through the collective efforts of Aurora Geosciences Ltd., Mineral Services Canada Inc., SRK Consulting Inc., and JDS Energy & Mining Inc., who were engaged by the Company to participate in the exercise. A NI 43-101 report describing the resource and was published on SEDAR at www.sedar.com on January 26, 2017.

Previous drilling established the presence of three kimberlite bodies under Faraday Lake, located 2.3 km northeast of Kelvin (Faraday 1, 2 & 3). Faraday 1 has been traced for over 200 meters under Faraday Lake, and Faraday 3 represents a new discovery for 2016. Initial drilling showed two discrete kimberlites located 100 meters apart, but ice based drilling completed in the winter of 2016 confirmed that the two limbs coalesce into one body near the shore of Faraday Lake (as Faraday 1-3). A total of 0.743 tonnes of kimberlite recovered from Faraday 1 by core drilling generated a sample grade of 4.17 carats per tonne for diamonds larger than 0.85mm.

A total of 9,548 meters of exploration and delineation drilling was completed during the summer program using two helicopter portable core drill rigs operating from land-based setups. One rig focused on the Faraday 1-3 kimberlite

complex, and the second rig was focused on Faraday 2. Two infill delineation drill holes were also completed on the Kelvin kimberlite to refine the kimberlite pipe shell in two specific areas of the Kelvin geological model.

A 97% success rate of hitting kimberlite was achieved during the summer drill program, and the Faraday 1-3 and Faraday 2 kimberlite bodies were successfully delineated from under Faraday Lake well onto the land. Three long kimberlite intercepts on Faraday 2 in the latter stages of the program of 76.9, 50.3 and 38.0 meters provided an indication that the kimberlite body may be expanding as it turns to the north, similar to what was observed in the early stages of drill delineating the Kelvin kimberlite. All of the goals of the summer program were successfully achieved.

In August 2016, the Company acquired six mining leases from GGL Resources Corporation ("GGL"). The leases are located along the south-western extension of a structural corridor that extends from the Faraday Complex through Kelvin to include the Gahcho Kué Mine. Management believes that these leases are prospective for the discovery of new diamond-bearing kimberlites. In consideration for the purchase, the Company paid to GGL a cash sum of $200,000 and GGL retains a 0.75% royalty interest (the "Royalty") on all mineral products produced from the property. The Company has the right at any time, prior to commencement of production from the property, to purchase one-third (1/3) of the Royalty, being 0.25%, for the sum of $1,000,000.

On January 17, 2017, the Company announced diamond recovery results from the Faraday 3 kimberlite. A total of 3.03 tonnes of kimberlite recovered by core drilling at Faraday 3 in 2016 returned 6.61 carats of diamonds larger than 0.85 mm for a sample grade of 2.18 carats per tonne. On January 23, 2017, the Company announced diamond recovery results from the Faraday 1 and 2 kimberlites. For Faraday 1, a total of 2.70 carats of diamonds larger than 0.85 mm were recovered from 0.86 tonnes of kimberlite core for a sample grade of 3.14 carats per tonne. For Faraday 2, a total of 1.37 carats of diamonds larger than 0.85 mm were recovered from 0.43 tonnes of kimberlite core for a sample grade of 3.22 carats per tonne. All samples were processed by caustic fusion at the Geoanalytical Laboratories Diamond Services of the Saskatchewan Research Council ("SRC").

In December 2016, Kennady was awarded 'Exploration Company of the Year' at the Mines and Money Conference in London, England. The award recognizes outstanding achievement in the field of mineral exploration.

KENNADY NORTH DIAMOND PROJECT

Overview

The Kennady North diamond project is located approximately 300 kilometers north-east of Yellowknife in Canada's Northwest Territories. The Project is 100% owned by the Company and consists of 22 federal leases and 58 claims covering an area of 67,164.17 hectares.

Exploration at Kennady North commenced in the late 1990's and resulted in the discovery of the diamond-bearing Kelvin, Faraday, MZ and Doyle kimberlite occurrences. The number of diamonds recovered from the Kelvin and Faraday kimberlites and the size-frequency distribution indicated that they may be of comparable grade to the 5034 (1.77 carats per tonne) and Hearne (2.10 carats per tonne) kimberlites at the Gahcho Kué Diamond Mine.

Exploration

In October 2011, there was an Airborne Gravity Gradiometry survey ("AGG"), which included a total of 2,793 line-kilometres flown over the Kennady North diamond project. This survey resulted in the identification of 106 geophysical targets, resulting in a 560 line-kilometre total magnetic field ground ("MAG") survey over the geophysical targets identified by the AGG survey. The MAG survey was conducted at 20 metre line-spacing, and the results enabled Mountain Province to prioritize the geophysical targets for drilling. The MAG survey was managed by Aurora Geosciences Ltd. ("Aurora") and was completed in April 2012.

In June 2012, Kennady Diamonds received a Type A Land Use Permit from the Mackenzie Valley Land and Water Board in respect of the Kennady North diamond project, which cleared the way for Kennady Diamonds to commence a summer drill program at the Kennady North diamond project.

In July 2012, the Company entered into an Exploration Agreement with the Lutsel K'e Dene First Nation ("Lutsel K'e"). The Exploration Agreement established the basis for Kennady Diamonds and Lutsel K'e to work collaboratively to advance exploration at Kennady North.

The Company has completed a number of exploration and evaluation programs since the summer of 2012 through to December 2016. Exploration and evaluation expenditures through 2016 are summarized below.

	Total	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
Exploration and evaluation expenses	$85,121,740	$31,806,615	$28,620,904	$17,415,440	$5,307,526	$1,971,255
Meters drilled	102,749	30,932	33,423	27,258	8,648	2,488

2012 Exploration Program

Based on the AGG survey results, exploration drilling at the Kennady North Project commenced in mid-2012. At that time, it was unclear whether the Kelvin and Faraday kimberlites were contiguous or separate bodies. Land-based drilling took place at both kimberlites and the core was sent to the the Saskatchewan Research Council ("SRC") for diamond recovery by caustic fusion.

The combined Kelvin/Faraday diamond results are summarized below in Table 1.

Table 1 - Kelvin/Faraday 2012 Summer Diamond Recovery Results

Total Weight (Kg)	Numbers of Diamonds According to Sieve Size Fraction (mm)										Total Diamonds
	+0.075 - 0.106	+0.106 - 0.150	+0.150 - 0.212	+0.212 - 0.300	+0.300 - 0.425	+0.425 - 0.600	+0.600 - 0.850	+0.850 - 1.180	+1.180 - 1.700	+1.700 - 2.360	
394.44	**570**	**528**	**316**	**241**	**123**	**22**	**67**	**12**	**9**	**1**	**1,889**

**Total carat weight of the sample is 0.92.*

2013 Exploration Program

In winter 2013, the Company completed 5,000 meters of drilling at Kennady North. Kimberlite was intersected in 24 of 26 drill holes with intercepts ranging from a few meters to approximately 100 meters. Kimberlite core was treated by the SRC for recovery of diamonds by caustic fusion with results summarized in Table 2. For the Kelvin kimberlite a sample grade of 7.24 carats per tonne for diamonds greater than 0.85mm was obtained, which included a 2.48 carat diamond. In summer 2013, a 2,500 meter drill program focused on land-based drilling at the North Lobe of the Kelvin kimberlite with recovered kimberlite again treated at SRC. Table 3 combines the total 2013 Kelvin diamond recovery results from both winter and summer programs.

Detailed high-resolution ground surveys were initiated during the winter of 2013 using ground gravity, horizontal loop and minimal capacitively coupled resistivity surveys (ohmmapper). High resolution ground geophysical surveying helped to delineate the upper portions of these unconventional kimberlite body shapes delineating the Kelvin kimberlite.

Table 2 - Kelvin/Faraday 2013 Winter Diamond Recovery Results

Total Weight (Kg)	Number of Diamonds According to Sieve Size Fraction (mm)													Total Diamonds
	+0.075 -0.106	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
1,103	**3,139**	**2,285**	**1,283**	**823**	**552**	**289**	**199**	**78**	**40**	**13**	**4**	**2**	**1**	**8,708**

Table 3 - Kelvin 2013 Winter and Summer Diamond Recovery Results

Total Weight (Kg)	Number of Diamonds According to Sieve Size Fraction (mm)												Total Diamonds*
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
4,301	**5,343**	**4,262**	**2,664**	**1,817**	**959**	**602**	**279**	**126**	**52**	**10**	**6**	**1**	**16,121**

**Total weight of diamonds greater than 0.85mm: 18.58 carats*

** Sample grade of diamonds greater than 0.85mm: 4.32 carats/tonne*

2014 Exploration Program

In winter 2014, the Company commenced a much larger geophysical program comprising ground gravity, ohmmapper, ground-penetrating radar and ELF (extremely low frequency EM survey) along the Kelvin-Faraday corridor. Roughly 10,200 meters of drilling was completed with over 25 tonnes of kimberlite recovered from Kelvin and over one tonne of kimberlite recovered from the Faraday bodies. The drilling defined the Kelvin and Faraday 2 kimberlites and identified a third kimberlite, Faraday 1. It was unclear whether the Faraday kimberlites were separate bodies. It is now understood that Faraday 1 and Faraday 2 are two separate kimberlites. Nearly one tonne of kimberlite from the Faraday kimberlites was processed at the SRC with diamond recovery results summarized in Table 4.

Table 4 - Faraday 2014 Winter Diamond Recovery Results

Total Weight (Kg)	Number of Diamonds According to Sieve Size Fraction (mm)												Total Diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
933.08	**1,879**	**1,180**	**741**	**420**	**207**	**104**	**59**	**25**	**6**	**7**	**0**	**0**	**4,628**

**Total weight of diamonds greater than 0.85mm: 3.62 carats*

**Sample grade of diamonds greater than 0.85mm: 3.88 carats per tonne*

There was also a 25 tonne bulk sample retrieved from the Kelvin kimberlite using HQ core drilling. The core was shipped to Yellowknife where detailed logging and analysis took place under the guidance of SRK Consulting, Vancouver, B.C. ("SRK") prior to dispatch to the SRC for processing through the dense-media separation (DMS) plant. Four distinct kimberlite phases were identified in the mini-bulk sample core, which are described in Table 5. The DMS results generated an overall sample grade of 1.79 c/t and are summarized in Table 6.

Table 5 – Kelvin Kimberlite Phases

Zone 1	Coherent pyroclastic kimberlite (PK)
Zone 2	Pyroclastic kimberlite with small (1-3cm) and medium (1-8cm) xenoliths
Zone 3	Pyroclastic kimberlite with rock flour and large (+10cm) xenoliths
Zone 4	Coherent transitional pyroclastic kimberlite

Table 6 – Kelvin 2014 Winter/Spring Diamond Recovery Results

Batch	Sample Weight (tonnes)	Number of Diamonds According to Sieve Size Fraction (mm)							Total	Carats	Sample Grade (c/t)
		+0.850 - 1.180	+1.180 - 1.700	+1.700 - 2.360	+2.360 - 3.350	+3.350 - 4.750	+4.750 - 6.700	+6.700 - 9.500			
Zone 1	6.12	70	133	71	23	1	0	0	298	18.13	2.96
Zone 2	5.60	45	95	43	9	2	1	0	195	11.91	2.13
Zone 3	9.20	44	60	18	10	1	0	0	133	7.76	0.84
Zone 4	4.05	32	54	15	7	1	0	0	109	6.32	1.56
Total*	**24.97**	**200**	**347**	**149**	**49**	**5**	**1**	**0**	**751**	**44.64**	**1.79**

**Includes DMS and recovery cleanup*

Under the guidance of SRK, three main zones of kimberlite emplacement were defined at the Kelvin kimberlite, described as zones A, B and C, with zone B further subdivided into a Bx Zone. Table 7 describes the kimberlite zones

present in the Kelvin kimberlite. For a 19 tonne mini-bulk sample recovered in the summer/fall drilling program, each of the zones were processed separately to understand the variability in diamond size and grade. Table 8 summarizes the diamond recovery results from the summer/fall mini-bulk sample. The summer/fall mini-bulk sample from the Kelvin North Lobe returned a grade of 2.59 carats per tonne.

Table 7 - Kelvin kimberlite zones

Zone	Kimberlite textural classification	Comments
A	Hypabyssal kimberlite with less common pyroclastic kimberlite	
B1	Pyroclastic kimberlite	Less than 50% dilution
B2/3	Pyroclastic kimberlite	More than 50% dilution
C	Hypabyssal kimberlite and pyroclastic kimberlite	

Table 8 – Kelvin 2014 Summer/Fall Diamond Recovery Results

Batch	Sample Weight (dry tonnes)	Number of Diamonds According to Sieve Size Fraction (mm)							Total Diamonds*	Carats*	Sample Grade (c/t) +0.85mm
		+0.850 -1.180	+1.180 - 1.700	+1.700 - 2.360	+2.360 - 3.350	+3.350 - 4.750	+4.750 - 6.700	+6.700 - 9.500			
Zone A	5.87	87	152	76	25	7	1	0	348	24.71	**4.21**
Zone B1	3.75	47	85	32	10	4	0	0	178	11.00	2.93
Zone B1(a)	1.67	12	28	14	4	2	0	0	60	5.16	3.09
Zone B2	1.90	11	18	3	1	0	0	0	33	1.15	0.61
Zone B3	2.62	2	13	4	1	0	0	0	20	0.97	0.37
Zone B3(a)	1.90	12	17	6	4	2	0	0	41	3.74	1.97
Zone C	1.17	5	24	4	3	0	0	0	36	1.97	1.68
TOTAL	**18.88**	**177**	**339**	**140**	**48**	**15**	**1**	**0**	**720**	**48.84**	**2.59**

**Includes DMS recovery cleanup*

In addition to the mini-bulk sample results, 3.77 tonnes of kimberlite from the summer/fall sample was processed by caustic fusion at the SRC and 1.23 tonnes was processed by caustic fusion at the Rio Tinto diamond laboratory in Thunder Bay, Ontario. Table 9 summarizes these caustic fusion results. A 1.83 tonne sample from the southern portion of the Kelvin North Lobe and a 47.62 kilogram sample from the Kelvin Sheet was also processed by caustic fusion at SRC, with results summarized in Tables 10 and 11.

In 2014, a total of approximately 27,200 meters was drilled at the Kelvin and Faraday kimberlites, resulting in the recovery of approximately 55 tonnes of kimberlite.

Table 9 – Kelvin 2014 Summer/Fall Diamond Recovery Results

Sample Weight (Dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												*Total Diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
5.001	**4,556**	**3,176**	**2,041**	**1,257**	**772**	**462**	**218**	**105**	**35**	**7**	**4**	**0**	**12,633**

**Total weight of recovered diamonds greater than 0.85mm: 12.85 carats*

**Sample grade of diamonds greater than 0.85mm: 2.57 carats per tonne*

Table 10 – Kelvin South Lobe 2014 Caustic Fusion Diamond Recovery Results

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												*Total diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
1.8376	**1,679**	**1,150**	**693**	**425**	**235**	**121**	**72**	**35**	**15**	**3**	**2**	**1**	**4,431**

**Total weight of recovered diamonds greater than 0.85mm: 6.68 carats*

**Sample grade of diamonds greater than 0.85mm: 3.64 carats per tonne*

Table 11 – Kelvin Sheet 2014 Caustic Fusion Diamond Recovery Results

Sample Weight (dry kilograms)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												*Total diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
47.62	**53**	**46**	**25**	**15**	**5**	**2**	**3**	**1**	**2**	**0**	**0**	**0**	**152**

**Total weight of recovered diamonds greater than 0.85mm: 0.28 carats*

**Sample grade of diamonds greater than 0.85mm: 5.95 carats per tonne*

2015 Exploration Program

The 2015 drilling program confirmed the continuity of the Kelvin kimberlite beyond the current geological model. A winter core drilling program recovered 2.7 tonnes of kimberlite from the Kelvin North Lobe, which was processed by caustic fusion at the SRC and returned a sample grade of 2.74 carats per tonne for diamonds greater than 0.85mm. The spring drilling program recovered two samples from Kelvin for caustic fusion at the SRC; A 2.42 tonne sample from the Kelvin North Lobe returned a sample grade of 2.60 carats per tonne, and 2.67 tonnes of kimberlite returned a sample grade of 3.40 carats per tonne for diamonds greater than 0.85mm. In summer, 0.93 tonnes of kimberlite from the Kelvin North Lobe returned a sample grade of 3.55 carats per tonne for diamonds greater than 0.85mm. Table 12 below summarizes the 2015 caustic fusion diamond recovery results from the Kelvin North Lobe 2015 summer drill program.

Table 12 – Kelvin North Lobe 2015 Caustic Fusion Diamond Recovery Results

Winter Results

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												Total diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
2.6874	**3,312**	**2,098**	**1,208**	**751**	**435**	**245**	**133**	**53**	**21**	**9**	**1**	**0**	**8,266**

**Total weight of recovered diamonds greater than 0.85mm: 7.37 carats*

**Sample grade of diamonds greater than 0.85mm: 2.74 carats per tonne*

Spring Results

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												*Total diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
2.416	**2,438**	**1,632**	**1,034**	**639**	**397**	**209**	**113**	**53**	**24**	**6**	**0**	**0**	**6,455**

**Total weight of recovered diamonds greater than 0.85mm: 6.29 carats*

**Sample grade of diamonds greater than 0.85mm: 2.60 carats per tonne*

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												*Total diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
2.674	**2,608**	**1,811**	**1,096**	**719**	**421**	**259**	**125**	**53**	**21**	**8**	**3**	**0**	**7,124**

**Total weight of recovered diamonds greater than 0.85mm: 9.10 carats*

**Sample grade of diamonds greater than 0.85mm: 3.40 carats per tonne*

Summer Results

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												*Total diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
0.926	**1,375**	**927**	**568**	**363**	**181**	**110**	**56**	**29**	**1**	**1**	**1**	**0**	**7,124**

**Total weight of recovered diamonds greater than 0.85mm: 3.29 carats*

**Sample grade of diamonds greater than 0.85mm: 3.55 carats per tonne*

Drilling in 2015 also confirmed that Faraday 1 and Faraday 2 are separate bodies. A 0.93 tonne sample of kimberlite from the Southeast Lobe of Faraday 2 was processed by caustic fusion and returned a sample grade of 1.93 carats per tonne for diamonds greater than 0.85mm. Table 13 summarizes the caustic fusion diamond recovery for the Faraday 2 Southeast Lobe.

Table 13 – Faraday 2 Southeast Lobe 2015 Spring Caustic Fusion Diamond Recovery Results

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												Total diamonds
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750	
0.9337	**1,275**	**872**	**488**	**283**	**179**	**99**	**48**	**16**	**3**	**3**	**0**	**0**	**3,266**

**Total weight of recovered diamonds greater than 0.85mm: 1.81 carats*
**Sample grade of diamonds greater than 0.85mm: 1.93 carats per tonne*

In 2015, a 443 tonne bulk sample recovered by large-diameter reverse circulation drilling at the Southeast Lobe of the Kelvin kimberlite was processed by dense-media separation at SRC. Table 14 summarizes the dense media separation (DMS) diamond recovery results from the southeast lobe of the Kelvin kimberlite. A total of 35 diamonds larger than 1 carat were recovered from the bulk sample.

Table 14 – Kelvin 2015 Bulk Sample Diamond Recovery Results

Batch	Sample Weight (tonnes)	Number of Diamonds According to Sieve Size Fraction (mm)							Total Diamonds	Carats	Sample Grade (c/t) +0.85mm
		+0.850 - 1.180	+1.180 - 1.700	+1.700 - 2.360	+2.360 - 3.350	+3.350 - 4.750	+4.750 - 6.700	+6.700 - 9.500			
Zone A	143.35	2,307	3,563	1,350	373	78	8	-	7,679	409.21	2.85
Zone B	119.13	1,357	2,496	925	254	50	10	1	5,093	292.83	2.46
Zone Bx	143.04	623	1,095	315	106	27	1	-	2,167	117.39	0.82
Zone C	37.02	362	639	234	60	10	3	-	1,308	73.43	1.98
TOTAL	**442.54**	**4,649**	**7,793**	**2,824**	**793**	**165**	**22**	**1**	**16,247**	**892.86**	**2.02**

The five largest diamonds recovered from the Kelvin bulk sample were described by the SRC as:

- 4.22 carat white/colorless, transparent macle with no inclusions;
- 3.95 carat brown, transparent aggregate with inclusions;
- 2.79 carat light brown, transparent aggregate with minor inclusions;
- 2.63 carat white/colorless, transparent octahedral with inclusions; and
- 2.59 carat white/colorless, transparent dodecahedron with no inclusions.

A preliminary valuation of diamonds recovered from the 443 tonne bulk Kelvin kimberlite was obtained from WWW International Diamond Consultants ("WWW") in Antwerp. Four separate diamond parcels represented Zone A (442.82 carats), Zone B (447.05 carats), Zone C (80.44 carats) and a small mixed parcel (16.79 carats). An average modeled price of US$56 per carat was obtained for Zone A and US$70 per carat for Zone B. The parcel from Zone C was too small to create modeled values, so an average price of US$123 per carat was reported. While only 88 diamonds greater than 0.66 carats per stone were present in the combined parcel many good colour white gem stones were present, especially in the C sample, with five of the eight stones being good colour and gem quality. The three highest value diamonds are a 4.22 carat diamond from Zone B valued at US$1,603 per carat, a 2.58 carat diamond from Zone C valued at US$1,366 per carat, and a 2.38 carat diamond from Zone C valued at US$1,196 per carat.

High resolution ground geophysical surveying continued at the Kelvin-Faraday corridor and at both the MZ and Doyle sills using gravity and ohmmapper.

2016 Exploration Program

Exploration in 2016 included caustic fusion diamond recovery results for Faraday 1 and Faraday 2. Samples of 6.42 tonnes of Faraday 2 collected in 2015 and 1.53 tonnes collected in 2016 each returned sample grades of 3.04 and 4.48 carats per tonne, respectively. Results for Faraday 2 are summarized in Table 15 and 16 and were released in Q1 2016.

Table 15 – Faraday 2 2016 Caustic Fusion Results from 2015 Drilling

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												Total Diamonds	Carats (+0.85mm)
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+3.350 -4.750		
6.428	5,689	3,670	2,192	1,320	831	679	290	125	40	23	4	0	14,863	19.53

**Sample grade of diamonds greater than 0.85mm: 3.04 carats per tonne*

Table 16 – Faraday 2 2016 Caustic Fusion Results from 2016 Drilling

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												Total Diamonds	Carats (+0.85mm)
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+3.350 -4.750		
1.53	2,064	1,353	794	492	241	159	72	33	9	9	2	0	5,228	6.85

**Sample grade of diamonds greater than 0.85mm: 4.48 carats per tonne*

Caustic fusion diamond recovery results for Faraday 1 include 0.225 tonnes of kimberlite that was collected in 2015, and 0.518 tonnes collected in 2016, each returning sample grades of 3.07 and 4.65 carats per tonne, respectively. Results for Faraday 1 are summarized in Table 17 and 18 below.

Table 17 – Faraday 1 2016 Caustic Fusion Results from 2015 Drilling

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												Total Diamonds	Carats (+0.85mm)
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+3.350 -4.750		
0.518	741	491	257	162	84	41	29	13	3	0	0	1	1,822	2.41

**Sample grade of diamonds greater than 0.85mm: 4.65 carats per tonne*

Table 18 – Faraday 1 2016 Caustic Fusion Results from 2016 Drilling

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)												Total Diamonds	Carats (+0.85mm)
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+3.350 -4.750		
0.225	368	239	119	67	41	21	12	8	2	0	0	0	877	0.6921

**Sample grade of diamonds greater than 0.85mm: 3.07 carats per tonne*

Following on positive results of the 2015 program for Kelvin South, a second bulk sampling program was initiated at Kelvin North on February 18th and completed by April 24th, 2016. Thirty-two large diameter reverse circulation drill holes (29 holes on the North Limb and 3 holes on the South Limb) recovered a total of 612.0 tonnes of kimberlite, which significantly surpassed the target recovery of 500 tonnes. In the same program, two large diameter RC holes were drilled on the Faraday 2 kimberlite to obtain a mini-bulk sample, with a total of 21.1 tonnes of kimberlite recovered.

The kimberlite recovered during the winter 2016 large diameter drilling program was processed for diamonds using dense media separation ('DMS') technology located at the Geoanalytical Laboratories Diamond Services of the Saskatchewan Research Council ('SRC'), which is accredited to the ISO/IEC 17025 standard by the Standards Council of Canada as a testing laboratory for diamond analysis.

In July, the Company announced that the Faraday 2 mini-bulk sample produced a total of 56.64 carats of diamonds (+0.85mm) for a sample grade of 2.69 carats per tonne. Core logging and geological modeling for Faraday 2 identified four kimberlite units (KIMB1-KIMB4), with KIMB1 being volumetrically dominant. The mini-bulk sample recovered only small amounts of some lithologies and as such, sample grades for every lithology could not be individually determined. Table 19 summarizes the diamond recovery results from the 2016 Faraday 2 mini-bulk sample.

Table 19 – Diamond Recovery Results from the Winter 2016 Faraday 2 Mini-bulk Sample

Kimberlite Lithology	Sample[1] Weight (dry tonnes)	Number of Diamonds per Square Mesh Sieve Division (mm)						Total Stones (+0.85mm)	Total Carats (+0.85mm)	Sample Grade* (ct/t)
		+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750 -6.700			
KIMB1+2+3	16.7	245	328	117	48	12	1	751	47.34	2.84
KIMB4	4.40	20	54	20	6	4	0	104	9.27	2.10
Total[2]	**21.1**	**266**	**383**	**137**	**54**	**16**	**1**	**857**	**56.64**	**2.69**

*Notes: 1 – Sample weight is calculated from drillhole diameter and kimberlite density measurements. 2 – includes one +1.18mm and one +0.85mm stone from the DMS circuit cleanup totaling 0.04 carats. * Sample grade of diamonds greater than 0.85mm: 2.69 carats per tonne. Rounding error may occur in the total carats and sample grade.*

The three largest diamonds recovered from the Faraday 2 sample are described by the SRC as follows:

- 1.90 carat grey transparent aggregate with inclusions;
- 1.73 carat light brown, transparent broken aggregate with inclusions; and
- 1.52 carat grey transparent aggregate with inclusions.

In September 2016, the Company announced the diamond recovery results for the north limb of the Kelvin kimberlite. A total of 1,278 carats of diamonds (+0.85mm) were recovered from 612.0 tonnes for a sample grade of 2.09 carats per tonne. Forty-four diamonds of one carat or greater were recovered with the largest stone a 3.43 carat white/colourless transparent octahedral twin with no inclusions.

Under the guidance of SRK Consulting (Vancouver, B.C.), three broadly-defined zones of kimberlite labeled A, B and C have been identified at the Kelvin kimberlite, with zone B further subdivided into zones B and Bx. The thickness of each zone varies along the length of the body, and so each zone was processed separately in order to better understand the diamond size and grade variability between each zone. Table 20 summarizes the diamond recovery results from the 2016 Kelvin north limb bulk sample.

Table 20 – Kelvin North 2016 Bulk Sample Diamond Recovery Results

Kimberlite Lithology	Sample[1] Weight (tonnes)	Number of Diamonds per Square Mesh Sieve Division (mm)						Total Stones (+0.85mm)	Total Carats (+0.85mm)	Sample Grade[2] (ct/t)
		+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750	+4.750 -6.700			
Zone A	184.2	4,929	5,004	1,672	463	65	8	12,141	529.00	2.87
Zone B	200.2	3,100	4,269	1,549	465	91	15	9,489	514.46	2.57
Zone Bx	183.5	1,080	1,310	463	149	22	2	3,026	155.03	0.84
Zone C	44.0	511	688	248	63	15	2	1,527	79.82	1.81
Total[2]	**612.0**	**9,620**	**11,271**	**3,932**	**1,140**	**193**	**27**	**26,183**	**1,278.31**	**2.09**

***Notes:** 1 – Sample weight is calculated from drillhole calliper and kimberlite bulk density measurements. 2 – Excludes 10.46 carats of diamonds recovered from mixed country rock and country rock breccia intersections external to the Kelvin body, and from DMS plant clean-up. Some rounding error may occur in the total carats and sample grade.*

The five largest diamonds recovered from the Kelvin bulk sample are described by the SRC as:

- 3.43 carat white/colourless transparent octahedral twin with no inclusions;
- 3.23 carat grey, translucent irregular shape with inclusions;
- 2.84 carat white/colourless, transparent octahedron with no inclusions;
- 2.57 carat white/colourless, transparent broken irregular shape with no inclusions;
- 2.14 carat off-white, transparent tetrahexahedron with no inclusions.

Kennady Diamonds retained the services of WWW International Diamond Consultants (Antwerp, Belgium) to provide an independent valuation as well as size frequency distribution and revenue models for the 2016 Kelvin bulk sample. The diamonds from the 2015 bulk sample also underwent revaluation and the combined result for 2,262.43 carats (+0.85mm) produced a value of US$52 per carat.

In December 2016, the culmination of logging, petrography and geological modelling was combined with the diamond grade and valuation results to allow declaration of a maiden resource estimate for the Kelvin kimberlite. An Indicated

Mineral Resource of 13.62 million carats of diamonds is contained in 8.50 million tonnes of kimberlite, with an overall grade of 1.60 carats per tonne and an average value of US$63 per carat using a bottom cutoff size of 1 mm. The resource was determined through the collective efforts of Aurora Geosciences Ltd., Mineral Services Canada Inc., SRK Consulting Inc., and JDS Energy & Mining Inc., who were engaged by the Company to participate in the exercise. A NI 43-101 report describing the resource is available on SEDAR at www.sedar.com.

In January 2017, the Company announced caustic fusion diamond recovery results for the Faraday 3 kimberlite. A total of 3.03 tonnes of kimberlite recovered by core drilling at Faraday 3 in 2016 returned 6.61 carats of diamonds larger than 0.85 mm for a sample grade of 2.18 carats per tonne. Results for Faraday 3 are summarized in Table 21.

Table 21 – Faraday 3 Caustic Fusion Results from 2016 Drilling

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)											Total diamonds	Total Carats (+0.85mm)
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350	+3.350 -4.750		
3.0289	**2,406**	**1,631**	**925**	**559**	**294**	**154**	**80**	**43**	**20**	**8**	**2**	**6,122**	**6.61**

**Sample grade of diamonds greater than 0.85mm: 2.18 carats per tonne*

In January 2017 the Company also announced diamond recovery results from 2016 drilling on the Faraday 1 and 2 kimberlites. At Faraday 1 a total of 2.70 carats of diamonds larger than 0.85 mm were recovered from 0.86 tonnes of kimberlite core for a sample grade of 3.14 carats per tonne. For Faraday 2, a total of 1.37 carats of diamonds larger than 0.85 mm were recovered from 0.43 tonnes of kimberlite core for a sample grade of 3.22 carats per tonne. Results for Faraday 1 and 2 are summarized in Table 22 and 23 below.

Table 22 – Faraday 1 Caustic Fusion Results from 2016 Drilling

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)										Total diamonds	Total Carats (+0.85mm)
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360	+2.360 -3.350		
0.8615	**1,139**	**708**	**374**	**255**	**130**	**86**	**39**	**23**	**7**	**5**	**2,766**	**2.7043**

****Sample grade of diamonds greater than 0.85mm: 3.14 carats per tonne.***

Table 23 – Faraday 2 Caustic Fusion Results from 2016 Drilling

Sample Weight (dry tonnes)	Number and Weight of Diamonds According to Sieve Size Fraction (mm)									Total diamonds	Total Carats (+0.85mm)
	+0.106 -0.150	+0.150 -0.212	+0.212 -0.300	+0.300 -0.425	+0.425 -0.600	+0.600 -0.850	+0.850 -1.180	+1.180 -1.700	+1.700 -2.360		
0.4249	**683**	**482**	**302**	**158**	**83**	**46**	**26**	**17**	**6**	**1,803**	**1.369**

****Sample grade of diamonds greater than 0.85mm: 3.22 carats per tonne.***

A total of 10,712 meters of exploration core drilling was completed in the 2016 winter/spring program as summarized in Table 24. Both Faraday 1 and 3 have been drill confirmed as over 200 meters in length, with late season drilling confirming that they coalesce near the shoreline of Faraday Lake, continue onto land, and are open along strike. Based on the mini-bulk sample results, a single HQ pilot hole was drilled into Faraday 2 to guide future large diameter RC drilling.

Table 24 – Summary of Winter/Spring Exploration Diamond Drilling - 2016

	Faraday (F1)	Faraday (F2)	Faraday (F3)	Hobbes	Kelvin Pipe	Kelvin Sheet	**Total**
Number of Drill Holes	25	1	30	14	1	3	**74**
HQ Total (m)	251	139	323	0	0	0	**713**
HQ3 Total (m)	0	0	0	0	211	169	**380**
NQ Total (m)	3,830	0	4,504	1,136	0	149	**9,619**
HQ KIMB (m)	80	73	85	0	0	0	**238**
HQ3 KIMB (m)	0	0	0	0	79	6	**86**
NQ KIMB (m)	606	0	775	107	0	6	**1,494**
Total Drilled (m)	4,081	139	4,827	1,136	211	318	**10,712**
Total KIMB (m)	686	73	860	107	79	12	**1,818**

A total of 9,548 meters of exploration and delineation drilling was completed during the summer program using two helicopter portable core drill rigs from land-based setups. One rig primarily focused on the Faraday 1 - 3 kimberlite complex, and the second rig was focused on Faraday 2. Towards the end of the program, two infill delineation drill holes were completed on the Kelvin kimberlite in order to refine the kimberlite pipe shell in two specific areas of the Kelvin geological model. A 97% success rate of hitting kimberlite was achieved on the drill program, and the Faraday 1 - 3 and Faraday 2 kimberlite bodies were successfully tracked from under Faraday Lake well onto the land. Drilling has demonstrated that the Faraday kimberlites are conceptually similar to the Kelvin kimberlite and are unconventional with respect to the traditional morphology of kimberlite pipes.

A series of longer kimberlite intercepts on Faraday 2 in the latter stages of the program (e.g. 76.9 m; 50.3 m and 38.0 m) provided an indication that the kimberlite body may be expanding as it turns towards the North, along the lines of what was observed when delineating Kelvin. All of the goals of the summer program were successfully achieved.

A breakdown of drilling statistics for the summer program is summarized below in Table 25.

Table 25 – Summary of Summer Exploration Drilling - 2016

	Faraday (F2)	**Faraday (F3)**	**Kelvin Pipe**	**Total**
Number of Drill Holes	14	20	2	**36**
HQ Total (m)	3,394	592	772	**4,758**
NQ Total (m)	555	4234	0	**4,789**
HQ KIMB (m)	327	26	143	**496**
NQ KIMB (m)	53	223	0	**276**
Total Drilled (m)	3,949	4,827	772	**9,548**
Total KIMB (m)	380	249	143	**772**

High resolution geophysics continues to be a critical component of the Company's exploration methodology to help delineate the unconventional kimberlite pipes within the Kelvin-Faraday corridor.

OUTLOOK

Drilling, sampling and modeling over the past four years have provided the data required for the Company to prepare the first NI 43-101 resource statement for the Kelvin kimberlite, which was published on January, 26, 2017 and includes the bulk samples from 2015 and 2016 and the Kelvin diamond valuation report from WWW International Diamonds. The NI 43-101 resource statement is available at www.SEDAR.com

Drilling, sampling and modeling of the Faraday 1, Faraday 2 and Faraday 3 kimberlites continues with a view to being able to declare a NI 43-101 inferred resource statement for these kimberlites during 2017.

The Company is extremely encouraged with its success within the Kelvin-Faraday corridor and looks forward to identifying additional unconventional pipe-like bodies.

Exploration drilling will continue at the MZ and Doyle kimberlites as well as potential new kimberlite targets across the Kennady North property.

The Preliminary Economic Assessment (PEA) that was initiated in Q2 of 2016 was suspended in Q4 to allow for the development of additional resources on the Kennady North Project.

SELECTED FINANCIAL INFORMATION

	December 31, 2016	December 31, 2015	December 31, 2014
Interest income	$ 185,397	$ 101,787	$ 107,675
Other income - flow through shares	335,748	1,634,855	1,163,492
Operating expenses	(34,685,206)	(31,536,109)	(19,337,577)
Other expenses	(1,213)	(1,484)	(1,271)
Net loss for the period	(34,165,274)	(29,800,951)	(18,067,681)
Basic and diluted loss per share	(0.73)	(0.92)	(0.78)
Cash flow from operations	(33,185,838)	(30,150,425)	(17,274,367)
Cash, end of year	8,286,064	41,068,805	507,808
Total assets	11,223,967	44,290,911	4,511,282
Long-term liabilities	170,663	247,568	147,016
Dividend declared	Nil	Nil	Nil

FINANCIAL REVIEW

For the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015

For the three months and year ended December 31, 2016, the Company recorded a net loss of $3,214,199 or $0.07 per share and $34,165,274 or $0.73 per share, respectively, compared to a net loss of $3,628,290 or $0.08 per share and $29,800,951 or $0.92 per share for the same period in 2015. The increase over the same period in 2015 is mainly as a result of $31,806,615 being spent on exploration and evaluation expenses compared to $28,620,904. During 2016, more drilling and bulk samples were undertaken resulting in the increase. A notable decrease was share-based payment expense, which decreased from $1,902,694 in 2015 to $1,357,290 in 2016.

Quarterly financial information for the past 8 quarters is shown in Table 1.

SUMMARY OF QUARTERLY RESULTS

Table 1 - Quarterly Financial Data

Unaudited	Three months ended December 31 2016	September 30 2016	June 30 2016	March 31 2016
	$	$	$	$
Earnings and Cash Flow				
Interest and other income	21,576	33,406	50,754	415,409
Expenses	(3,235,461)	(6,386,276)	(9,996,750)	(15,066,719)
Net loss for period	(3,214,199)	(6,353,166)	(9,946,298)	(14,651,611)
Cash flow from operations	(4,465,487)	(5,423,137)	(12,392,022)	(10,905,192)
Basic and diluted loss per share	(0.07)	(0.13)	(0.21)	(0.31)
Investing activities	21,576	(166,594)	50,754	79,661
Financing activities	70,250	44,450	176,000	127,000
Balance Sheet				
Total assets	11,223,967	15,823,610	21,427,628	33,685,090

Unaudited	Three months ended December 31 2015	September 30 2015	June 30 2015	March 31 2015
	$	$	$	$
Earnings and Cash Flow				
Interest and other income	851,045	2,830	11,634	871,133
Expenses	(4,478,961)	(8,388,064)	(7,068,586)	(11,600,498)
Net loss for period	(3,628,290)	(8,385,608)	(7,057,322)	(10,729,731)
Cash flow from operations	(6,364,802)	(7,724,352)	(7,047,892)	(9,013,379)
Basic and diluted loss per share	(0.08)	(0.29)	(0.25)	(0.42)
Investing activities	116,190	(61,308)	(1,488,366)	1,873,895
Financing activities	33,080,623	18,649,472	-	18,540,916
Balance Sheet				
Total assets	44,290,911	18,554,705	6,488,826	13,894,156

COSTS AND EXPENSES

The costs and expenses for the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015 are similar except for the following:

Exploration and evaluation expenses

Exploration and evaluation expenses for the three months and year ended December 31, 2016 were $2,624,123 and $31,806,615, respectively, compared to $4,142,795 and $28,620,904 for the same period in 2015. The increase in exploration and evaluation expenses is a result of an extensive winter/spring and summer program on the Kennady North Project.

	Three months ended December 31, 2016	Three months ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Lease payments	**$ 7,229**	$ 7,234	**$ 28,423**	$ 28,325
Aircraft support	**205,918**	391,829	**2,379,866**	2,342,757
Fuel	**1,941**	(44,884)	**1,406,832**	1,502,523
Geophysics	**4,455**	19,139	**605,597**	139,214
Drilling support	**12,555**	137,585	**120,623**	475,518
Exploration personnel and program support	**386,572**	650,645	**4,177,077**	3,587,393
Camp maintenance, supplies, mobilization, general costs	**318,567**	760,155	**4,236,642**	4,614,370
Site & logistical support	**386,000**	427,567	**5,767,738**	2,210,130
Environmental	**36,015**	63,987	**115,933**	82,160
Professional geological services	**176,470**	169,176	**895,178**	732,703
Drilling	**350,125**	941,484	**9,270,993**	10,646,286
Technical consultant	**22,066**	(1,831)	**196,225**	119,783
Laboratory analysis	**448,238**	544,346	**1,816,974**	1,896,063
Diamond valuation	**163,272**	23,826	**191,048**	155,145
Permitting	**21,113**	52,537	**149,135**	88,534
Preliminary economic assessment	**83,587**	-	**448,331**	-
	$ 2,624,123	$ 4,142,795	**$ 31,806,615**	$ 28,620,904

Consulting fees and payroll

Consulting fees and payroll expenses for the three months and year ended December 31, 2016 were $413,173 and $953,055, respectively, compared to $235,099 and $552,846 for the same period in 2015. The increase is as a result of the former President and CEO's increase in consulting fees for the first 5 months of the period, and the recruitment costs associated with the search for a new President and CEO.

Share-based payment expense

Share-based payment expense for the three months and year ended December 31, 2016 were $43,861 and $1,357,290, respectively, compared to $Nil and $1,902,694 for the same period in 2015. During the year ended December 31, 2016, 590,000 options were granted compared to 685,000 options granted for the same period in 2015. All options vested immediately, in December 31, 2016 and 2015.

Interest income

Interest income for the three months and year ended December 31, 2016 was $21,576 and $185,397, respectively, compared to $86,190 and $101,787 for the same period in 2015. The increase over 2015 is mainly due to the significantly higher average cash balance during the year as a result of the September and October 2015 private placements.

Other income

Other income for the three months and year ended December 31, 2016 were $Nil and $335,748, respectively, compared to $764,855 and $1,634,855 same period in 2015. In 2016, exploration expenditures were renounced relating to the flow-through common shares from the September and October 2015 private placements. In 2015, exploration expenditures were renounced relating to flow-through common shares from the February, September and October 2015 private placements and as a result, the flow-through premiums were recognized in the statement of comprehensive loss as other income, as the expenditures were incurred.

Travel expenses

Travel expenses for the three months and year ended December 31, 2016 were $44,782 and $71,458, respectively, compared to $14,133 and $16,099 for the same period in 2015. The increase over 2015 is mainly due to the increased exploration program, and travel expenses of the new President and CEO.

INCOME AND RESOURCE TAXES

The Company is subject to mining and income taxes in Canada with the statutory income tax rate at 26.50%.

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

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

FINANCIAL POSITION AND LIQUIDITY

Operating Activities

Cash used in operating activities for the year ended December 31, 2016 was $33,185,838 compared with $30,150,425 for the comparative period in 2015. This is mainly a result of increased exploration and evaluation activities in 2016.

Investing Activities

Investing activities for the year ended December 31, 2016 amounted to ($14,603) compared to $440,411 for the comparative period in 2015. In the year ended December 31, 2015, equipment was purchased totalling $1,694,138 and short-term investments were redeemed totalling $2,002,762 compared to $Nil in the current period. During the year ended December 31, 2016, $200,000 was incurred to acquire six mining leases. Interest income of $185,357 was received in the year ended December 31, 2016 compared to $101,787 in 2015.

Financing Activities

Financing activities for the year ended December 31, 2016 amounted to $417,700 compared to $70,271,011 for the comparative period in 2015. During the year ended December 31, 2015, the Company issued by way of private placements 20,986,560 commons shares and 2,293,235 flow-through common shares for gross proceeds of $70,759,675. Share issuance costs of $488,664 were incurred. In the year ended December 31, 2016, 275,000 options were exercised for gross proceeds of $417,700.

Cash Resources and Liquidity

At December 31, 2016, the Company reported a working capital of $7,815,464 (2015 - $40,391,535). Included in working capital at December 31, 2016 was cash of $8,286,064 (2015 - $41,068,805). At December 31, 2016 and 2015, the Company had no long-term debt.

The Company's budgeted expenditures for the H1 2017 program is approximately $15.65 million and is contingent on the Company's ability to successfully raise additional capital as noted in Note 1 of the Financial Statements regarding going concern.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

i) Significant Judgments in Applying Accounting Policies

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

a) Impairment analysis – Mineral Properties

The Company reviews its mineral properties for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. IFRS 6 - *Exploration for and evaluation of mineral resources* requires the Company to make certain judgments in respect of such events and changes in circumstances, and in assessing their impact on the valuations of the affected assets. The Company's assessment is that as at December 31, 2016 and December 31, 2015, no indicators of an impairment in the carrying value of its mineral properties had occurred.

ii) Significant Accounting Estimates and Assumptions

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

a) Impairment analysis – Mineral Properties

The Company reviews its mineral properties for impairment based on results to date and when events and changes in circumstances indicate that the carrying value of the assets may not be recoverable. If indicators of impairment are identified, management will perform an impairment test in accordance with IAS 36 – *Impairment of assets* ("IAS 36"). IAS 36 requires the Company to make certain judgments, assumptions, and estimates in determining the estimate of the net recoverable amount. Impairments are recognized when the carrying values exceed management's estimate of the net recoverable amounts associated with the affected assets. The values shown on the balance sheet for Mineral Properties represents the Company's assumption that the amounts are recoverable. As a result of the numerous variables associated with the Company's judgments and assumptions, the precision and accuracy of estimates of recoverable amount is subject to significant uncertainties, and may change significantly as additional information becomes known.

b) Stock options

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

c) *Provision for decommissioning and restoration*

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

d) *Deferred taxes*

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

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE COMPANY

At the date of this MD&A, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

The Company anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements and are therefore not discussed below.

Share-based payments

In June 2016, the IASB issued amendments to International Financial Reporting Standard 2, Share-based Transactions ("IFRS 2"). The amendments are effective for periods beginning on or after January 1, 2018 and are to be applied prospectively. The amendments clarify the classification and measurement of share-based payment transactions. Management is currently assessing the impact of the amendments to IFRS 2 on the financial statements.

Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ("IFRS 9") bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The extent of the impact of adoption of IFRS 9 has not yet been determined.

Leases

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

Income taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes ("IAS 12"). The amendments clarify that the existence of a deductible temporary difference is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset and also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The amendments apply for annual periods beginning on or after January 1, 2017 with retrospective application. Early application of the amendments is permitted. The impact of the amendments to IAS 12 on the Company's financial statements has not yet been determined.

FINANCIAL INSTRUMENTS

The Company's financial instruments are described in Note 4 to the Company's December 31, 2016 financial statements.

RELATED PARTY TRANSACTIONS

In accordance with IAS 24 *Related Parties*, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The Company's related parties include its key management, the Company's directors, and their close family members. Mountain Province and the Gahcho Kué Joint Venture, in which Mountain Province holds an interest, are also related parties since the Company and Mountain Province had common members of key management and certain directors in 2016. International Investment and Underwriting ("IIU") is also a related party since it is controlled by Mr. Dermot Desmond. MCC Geoscience Inc. ("MCC") is also a related party since it is controlled by a member of the Board of Directors.

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

The Company had the following transactions and balances with its related parties including key management personnel, and Mountain Province which includes the monthly management fee charged by Mountain Province for the reimbursement of expenses incurred on the Company's behalf by Mountain Province. The transactions with key management personnel are in the nature of remuneration which are paid directly by the Company and are not included in the monthly management fee charged by Mountain Province. The transactions with IIU are for the director fees and travel expenses of the Chairman of the Company. The transactions with MCC are for consulting fees and reimbursements of travel expenses.

The balances as at December 31, 2016 and 2015 were as follows:

	December 31, 2016	December 31, 2015
Payable to key management personnel and directors	**$ 406**	$ -
Payable to International Investment and Underwriting	**22,832**	-
Payable to MCC Geoscience Inc.	**9,056**	-
Payable to Mountain Province Diamonds Inc.	**-**	8,475

The transactions for the year ended December 31, 2016 and 2015 were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
The total of the transactions:		
Management fee and reimburseable expenses charged by Mountain Province	**$ 90,000**	$ 90,000
International Investment and Underwriting	**22,832**	10,000
Consulting fees charged by MCC Geoscience Inc.	**31,100**	-
Remuneration of key management personnel	**1,955,039**	2,364,213

The remuneration expense of directors and other members of key management personnel for the year ended December 31, 2016 and 2015 were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Consulting fees, director fees, payroll and other short-term benefits	**$ 791,339**	$ 461,519
Share-based payment expense	**1,163,700**	1,902,694
	$ 1,955,039	$ 2,364,213

CONTRACTUAL OBLIGATIONS

The Company has no contractual obligations at December 31, 2016 other than a management services agreement with Mountain Province, for an annual amount of approximately $90,000. The contract can be terminated at any time by either party without penalty.

SUBSEQUENT EVENT

Subsequent to the year ended December 31, 2016, 200,000 stock options were exercised for gross proceeds of $408,000.

Subsequent to the year ended December 31, 2016, 100,000 stock options were forfeited.

Subsequent to the year ended December 31, 2016, 224,999 Restricted Share Units were granted at a fair value of $3.55 per unit.

OTHER MANAGEMENT DISCUSSION AND ANALYSIS REQUIREMENTS

RISKS

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

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

- risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits;
- mining exploration risks, including risks related to accidents, equipment breakdowns or other unanticipated difficulties with or interruptions in production;
- the potential for delays in exploration activities or the completion of studies;
- risks related to the inherent uncertainty of exploration and cost estimates and the potential for unexpected costs and expenses;
- risks related to foreign exchange fluctuations and prices of diamonds;
- risks related to commodity price fluctuations;
- the uncertainty of profitability based upon the Company's limited life and resultant losses;
- risks related to failure of the Company to obtain adequate financing on a timely basis and on acceptable terms, particularly given recent volatility in the global financial markets;
- risks related to environmental regulation, permitting and liability;
- political and regulatory risks associated with mining and exploration;
- aboriginal rights and title;
- failure of plant, equipment, processes and transportation services to operate as anticipated;

- possible variations in ore grade or recovery rates, permitting timelines, capital expenditures, reclamation activities, land titles, and social and political developments, and other risks of the mining industry; and
- other risks and uncertainties related to the Company's prospects, properties and business strategy.

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

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company's common shares are listed on the TSX Venture Exchange under the symbol KDI. There are an unlimited number of common shares without par value authorized to be issued by the Company.

At April 6, 2017, there are 47,381,970 shares outstanding, 1,800,000 options and 224,999 Restricted Share Units granted by the Company.

DISCLOSURE CONTROLS AND PROCEDURES

Management has established processes to provide sufficient knowledge to support representations that it has exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements, and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the Ontario Securities Act. Forward-looking information may include, but is not limited to, statements with respect to the success of exploration activities, future mineral exploration, permitting time lines, requirements for additional capital, sources and uses of funds, the estimation of mineral reserves and mineral resources, the realization of mineral reserve and mineral resource estimates, future remediation and reclamation activities, the timing of activities and the amount of estimated revenues and expenses. Forward-looking information is based on

various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of diamonds; that the Company can access financing, appropriate equipment and sufficient labour and that the political environment where the Company operates will continue to support the development and operation of mining projects. Should underlying assumptions prove incorrect, or one or more of the risks and uncertainties described below materialize, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

Forward-looking information is subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking information, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding; delays or the inability to obtain necessary governmental permits or financing; risks associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Company's expectations; the potential for and effects of labor disputes or other unanticipated difficulties with or shortages of labor or interruptions in production; failure of plant, equipment or processes to operate as anticipated; actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, diamond price fluctuations; uncertain political and economic environments; changes in laws or policies, and other risks and uncertainties, including those described under Risks.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations. The Company undertakes no obligation to publicly update or review the forward-looking statements whether as a result of new information, future events or otherwise, other than as required under applicable securities laws.

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

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

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

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

On behalf of the Board of Directors,

"Rory Moore"
Dr. Rory Moore
President & CEO
April 6, 2017