

Interview: Patrick Evans of Mountain Province Diamonds (TSX:MPV)

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On September 24th, 2010 Mountain Province Diamonds announced the results of the Feasibility Study on the Gahcho Kué diamond project located in Canada's Northwest Territories. The study confirmed an operating mine life of 11 years based on an average annual production of approximately 4.5 million carats and initial capital costs in the range of \$550 to \$650 million. Thereafter, the company promptly raised \$23 million at \$5 per share providing the Mountain province with sufficient funds for its 2011 operating budget and a required \$10 million payment to De Beers.

In partnership with De Beers, Mountain Province is developing, according to the company, the world's largest and richest new diamond mine. And after 17 long years of development, the company is moving closer and closer towards production. De Beers is the world's leader in diamond discovery, development and mining. De Beers has been active in Canada since the early 1960s and is currently working on several exploration projects ranging from grassroots exploration to feasibility studies. De Beers Canada now has two established mines - the Snap Lake Mine and Victor Mine. Both mines were officially opened in July, 2008.

The Snap Lake Mine, De Beers' first diamond mine outside of Africa, is built on the shore of Snap Lake 220 kilometres northeast of Yellowknife. The mine is Canada's first completely underground diamond mine. While the Victor Mine is located in the James Bay Lowlands of Northern Ontario, approximately 90 kilometers west of the coastal community of Attawapiskat. Like Snap Lake, Gahcho Kué is located in Canada's arctic.

Cathie Bolstad, spokesperson for De Beers Canada points out, different physical profiles of Snap Lake and Gahcho Kué will require different mining approaches. Whereas Snap Lake is a fully underground mine, Gahcho Kué is more reminiscent of the Ekati and Diavik diamond mines, which began their lives as traditional open-pit operations.

Highgrade editor Kirk Exner recently connected with Patrick Evans, President & CEO of Mountain Province Diamonds, to discuss the company's relationship with De Beers and their corporate development plans.

Thanks for joining us Patrick, please tell our readers, in general terms, about Mountain Province and the structure of the company.

Mountain Province Diamonds controls 49 percent of the world's largest and richest new diamond development project at Kennady Lake in the diamond fields of Canada's Northwest Territories. Partnered with De Beers, the leading global diamond company, the joint venture is permitting a first mine that will produce approximately 4.5 million carats per year from open-pit for an initial 11 years. Gahcho Kué ("Place of Big Rabbits") will be Canada's fifth diamond mine and the fourth in the Northwest Territories.

Mountain Province originally discovered diamond-bearing kimberlite in the mid-1990s when there was a "diamond rush" in Canada. Please talk about those exciting times in comparison to where the company is at today.

Mountain Province staked the properties at Kennady Lake during Canada's diamond rush 20 years ago and discovered the first kimberlite – 5034 – in 1994. This was a remarkable achievement. It's about ten times more difficult to find a diamond mine than it is to find a gold mine. Also, only 1 percent of diamond discoveries have the grade to support a diamond mine. Today, the 5034 kimberlite has a reserve grade of nearly 2 carats per tonne and contains more than 23 million carats for an in-situ value of over \$4.2 billion.

Does having a majority partner, albeit a world-class partner in De Beers, limit the company in any way?

Mountain Province entered into a JV with De Beers in 1995 under which it could earn a 51 percent interest in Gahcho Kué. De Beers discovered a further six kimberlites, three of which (5034, Hearne and Tuzo) have a Probable Reserve of 31.2 million tonnes with a fully diluted mining grade of 1.57 carats per tonne for a total reserve of 49 million carats. At April 2011 actual diamond prices of \$185 per carat, this represents in-situ value of more than \$9 billion!

Mountain Province is De Beers' largest commercial mining partner. Although it's a 49/51 JV, all material decisions require the approval of both partners, so it effectively operates as a 50/50 JV. Each partner will market its own share of the diamond production, which gives Mountain Province control over the marketing of more than 2 million carats a year. Based on April 2011 diamond prices of \$185 per carat, Mountain Province will have control of revenue of more than \$370 million a year. With operating costs projected at approximately \$30 per carat, this represents an operating margin of over 80 percent. And the company's current market cap is a mere \$350 million.

You recently announced two major exploration programs at Kennady Lake - the planned Kennady North airborne gravity survey and the Tuzo Deep drill program. What are the key points associated with each program?

De Beers and Mountain Province have just completed an airborne gravity survey over both Gahcho Kué as well as Mountain Province's 100%-controlled Kennady North Project, which is immediately to the north and west of Gahcho Kué and more than three times the surface area. With the preliminary results expected before the end of November, it's expected that additional kimberlites will be identified which will be the subject of further exploration to increase the size of what's already the world's largest new diamond development project.

In addition, the Joint Venture is currently drilling the six-hole Tuzo Deep program designed to define an underground resource from 350 (the base of the current 21 million carat Tuzo resource) to 750 metres. If successful, the Tuzo Deep program has the potential to add materially to both the Gahcho Kué resource as well as the projected mine life. The Tuzo Deep drill program is expected to be completed in early 2012 and thereafter the results will be announced.

It is no secret that you've been in discussions with third parties who are interested in Mountain Province. However, you elected to cease discussions before the results of these exploration programs have been announced. If you read between the lines one can assume that the board is open to an acquisition - is that a fair assumption?

Given the size and quality of the Gahcho Kué asset, as well as the potential to materially increase the resource of what's already the world's largest and richest new diamond mine development, it's hardly surprising that Mountain Province has attracted the attention of the leading diamond producers seeking to add to their rapidly diminishing resources. Despite this unsolicited attention, Mountain Province is determined to remain in control of its destiny at least until the full value of its assets has been established. Accordingly, Mountain Province unilaterally suspended discussions with third parties pending the results of the Tuzo Deep program and the airborne gravity survey. Once the results of these programs are in the public domain and shareholders have a better idea of the value of the company's assets, Mountain Province will re-engage with third parties to explore value-enhancing opportunities.

For investors looking at investing in this sector for the first time, what are some of the key factors to consider and what sets Mountain Province apart for other companies?

While economic diamonds deposits are undoubtedly the most difficult to discover, they offer amongst the highest margins of any commodity. Despite more than 20 years of exploration costing hundreds of millions of dollars, Gahcho Kué was the last major diamond discovery. No discovery since then can compete with the size and quality of Gahcho Kué. Growing demand, particularly in India and China, has driven the industry into a supply deficit which has resulted in annual double-digit price increases. Given that it takes on average ten years from discovery to production from a new diamond mine, the supply deficit is likely to grow and provide strong price support for Gahcho Kué future diamond production.