

# Rich New Diamond Mine Ready to Sparkle

The Five-Minute Interview: Patrick Evans

Jun 23, 2016 4:35 AM By Avi Krawitz

 Comment

 Email

 Print

 Facebook

 Twitter

Share 



**RAPAPORT...** Gahcho Kué, billed as the largest and richest of the new diamond mines, is now “weeks rather than months” from launching more than 20 years after it was first discovered in Canada’s Northwest Territories. Patrick Evans (*pictured below*), president and chief executive officer of Mountain Province, took time out to speak with *Rapaport News* about the prospects for the mine, which Mountain Province co-owns with De Beers, and what the diamond market can expect from this new source of rough.

**Rapaport News:** *When will you hold your first sale given that production is slated for the third quarter?*

**Patrick Evans:** Sales will depend on how quickly production builds up. It will take the processing plant around six months to reach commercial production, which is about 70 percent of capacity. We expect to take about eight months to reach full capacity.

If we’re able to start up in the next month or two we anticipate production will be around 1 million carats by year end, of which about 500,000 carats will go to Mountain Province. In that scenario we expect to have at least one sale this year, probably in November. If production goes better than expected, we may have a sale in September and again in November. We’d like to have 80,000 to 100,000 carats before we hold our first tender.



**Rapaport News:** *How do you plan to sell your share of production?*

**Evans:** We'll be selling via open tender in Antwerp. Bonas will be handling our sales and we anticipate 10 sales per year.

**Rapaport News:** *How does one become a buyer?*

**Evans:** Bonas will be inviting people to participate in the tenders. There will be stipulations and we're relying on Bonas to guide us with best practices. But it's unlikely that qualified buyers will need to meet a minimum volume or value threshold with their purchases.

**Rapaport News:** *What are your targets for the first year of production?*

**Evans:** We expect to be profitable in the first year. Our projected cost is \$35 per carat and we anticipate revenue of around an average \$123 per carat. We've borrowed \$370 million to build the mine and have debt repayment obligations over a 5-year schedule with \$25 million due in 2017. If we reach our production target of 6 million carats in the first year, around 3 million will be Mountain Province's share. At a conservative sale of \$100 a carat, that's \$300 million in revenue. So even with our debt obligations the mine should be highly profitable as early as 2017.

**Rapaport News:** *Explain the sorting process?*

**Evans:** Our monthly production will initially go to Rio Tinto's Diavik sorting facility, which is the only sorting facility in Yellow Knife. Production will be split into two broad parcels being run-of-mine goods and fancies and specials.

The run-of-mine production will be size sorted and randomly split between the partners, according to the ownership proportions whereby De Beers gets 51 percent and Mountain Province 49 percent. In the fancies and specials, where the volume is too low to do a random split, each partner will bid for the whole parcel and the rough will go to the highest bidder.

From the Diavik facility, production will go through the royalty valuation and then to Worldwide Diamond Manufacturers in India for sorting according to our specifications. It will then be sent to Antwerp for final sale.

**Rapaport News:** *What can we expect from Gahcho Kué production?*

**Evans:** We have three kimberlites in the mine plan. The 5034 pipe will be mined first, then Hearne and finally the Tuzo pipe. In total, the mine has a 12-year lifespan and will yield an average 4.5 million carats per year. However, annual production in the first five years will be between 5 million and 6 million carats due to higher grades at 5034 and Hearne.

We have an idea of what production will look like but will only really know the detail once we start mining. At the moment we're working off a bulk sample of 8,300 carats. What is evident is there are two broad categories of diamonds in our production: high-quality white diamonds with a good population of D, flawless stones; and a population of browns.

We don't have any capes but we do have fancy yellows and a few pinks so there is potential for fancy colors. There's also potential for high-quality large diamonds given that we recovered two special stones in bulk sampling: a 10-carat, D-color stone at 5034 and a 25-carat, H-color diamond from Tuzo.

**Rapaport News:** *What is the overall value of production?*

**Evans:** We established a model pricing base when we published our feasibility study in March 2014, which excludes potential larger stones. The model price has generally been 30 percent to 35

percent below our estimated spot price.

We're mining 5034 first, which is the highest value kimberlite with a model value of over \$100 per carat and a spot price from the initial lobe of about \$160 per carat according to December 2015 prices.

**Rapaport News:** *Have you adjusted your pricing models to reflect recent weaker market conditions?*

**Evans:** The economics of the mine are based on a very conservative base. We expect to achieve at least the spot price, and above that with the occurrence of larger stones. So we weren't too concerned when rough prices fell 15 percent in 2015 because we've assumed we'll achieve a 30 percent to 35 percent premium to what we've modeled.

**Rapaport News:** *Is this a good time to launch a diamond mine given the state of the market?*

**Evans:** After 21 years of discovery any time is good for us. The market appears to be stable and we're hearing there's been about an 8 percent rough price improvement since the beginning of the year.

We'll be producing 5 million to 6 million carats next year at full production out of a global market of about 130 million carats. So we're not going to move the dial in terms of global production. Mountain Province's share of 2.5 million to 3 million carats is not an extraordinary volume the market will have difficulty absorbing. So we don't anticipate disrupting the supply-demand balance that has been achieved.

**Rapaport News:** *Will Mountain Province be involved in any merger and acquisition activity given all the consolidation talk in the Canadian diamond mining space?*

**Evans:** A key consideration for us will be to assess if there are any prospects in Canada that add value to our shareholders as opposed to being dilutive for them. Given we're projected to be the largest of the independent producers, the probability is there will not be accretive opportunities.

It's worth noting that Mountain Province is not a strategic investor in the diamond industry. Our principle shareholders are financial investors focused on maximizing returns. Therefore, we're always open to having discussions with others who may approach us. But if they're not accretive we won't pursue them and we'll focus on mine site development and returning funds to shareholders.

[http://www.diamonds.net/\(S\(j4wvcamtrpjs0v55lwh2rvfi\)\)/News/NewsItem.aspx?ArticleID=57416&ArticleTitle=Rich%20New%20Diamond%20Mine%20Ready%20to%20Sparkle](http://www.diamonds.net/(S(j4wvcamtrpjs0v55lwh2rvfi))/News/NewsItem.aspx?ArticleID=57416&ArticleTitle=Rich%20New%20Diamond%20Mine%20Ready%20to%20Sparkle)