



The Next Big Thing ...

... Sustain the BIG THING!

**Enhancing the Future of Diamonds
in Northern Canada**

Presentation to Prospects North, 2007
September 20, 2007
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Recently I heard someone use two words that caused me some concern. They were “after diamonds”. Here I was feeling good about our work because I could remember “before diamonds”, and they were suggesting a time when we wouldn’t have diamonds.

Much as I didn’t want to think about life here without diamonds, I think it’s of value to understand where we are headed, and if there is anything we can do about it.

So, I’ve titled my talk to address this.



Key Points

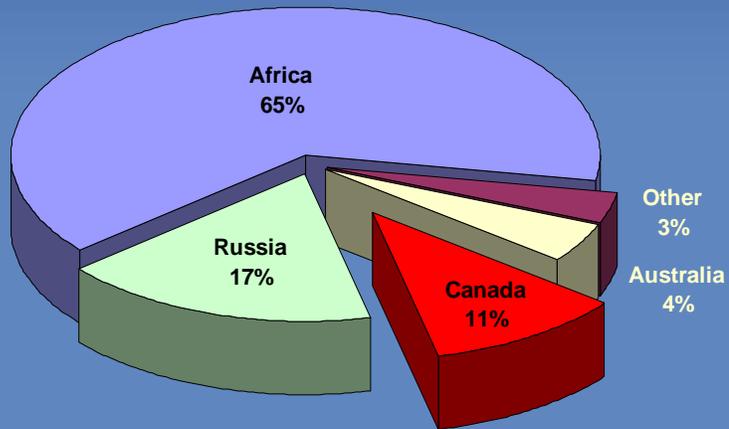
1. **Diamonds are a really BIG THING**
2. **But diamonds' future is limited**
3. **By taking action now, we can sustain this really BIG THING**

These are the key points I wish to make today.



Nationally – Diamonds are a BIG Thing

Value of 2005 Global Diamond Production (Canada's Contribution from 2 NWT Diamond Mines)



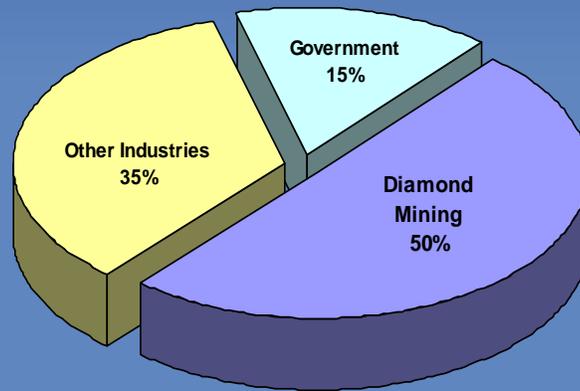
Source: NWT Government, Diamond Facts 2005/2006 Industry Report

Let's take a big picture view of how big diamonds are. Nationally, diamonds are a Big thing in Canada.

10 years ago, there was no Canadian slice in this pie. Today, we are at 3rd place.

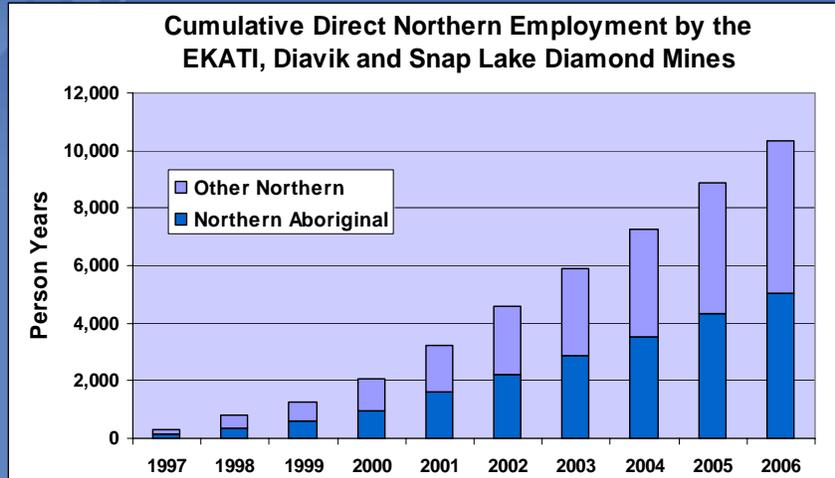
Regionally – Diamonds are a BIG Thing

Diamond Mining Contribution to Northwest Territories
Real Gross Domestic Product in 2006



If we look at the Regional or Territorial perspective, diamonds are clearly also BIG. In 2006, diamonds became half of the North's GDP.

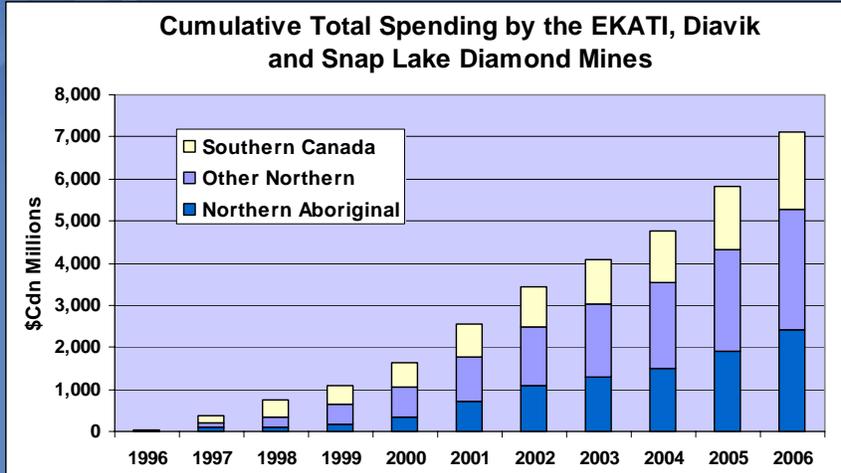
Locally – Diamond Jobs Are a BIG Thing



- **Northern Employment:** More than 10,500 person-years of employment to Aboriginal and northern workers.

At the local level, diamonds are certainly really BIG. This chart shows the cumulative employment generated in the north by diamonds, and you can see the benefits are about equally split between non-Aboriginal and Aboriginal jobs.

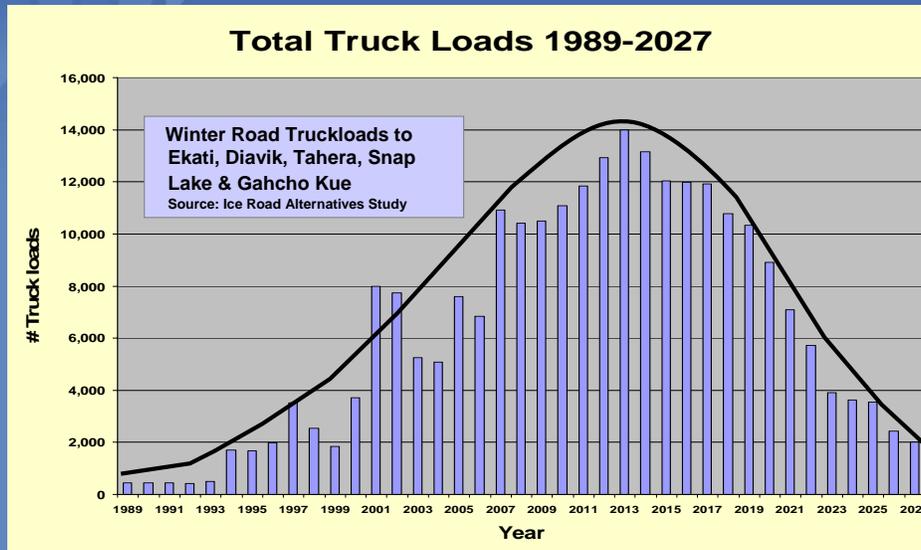
Diamond Business Is a BIG Thing Too



- **Steady growth as new mines constructed. Over \$5 billion with Aboriginal & Northern businesses over 10 years.**

And certainly from a business perspective, diamonds are a really big thing. We've had steady growth with new mines being constructed, and it is quite a success story to put over \$5 billion into the local economy in this short a time period. Also the amount of Aboriginal business is phenomenal.

Can We Keep Diamonds a BIG Thing?



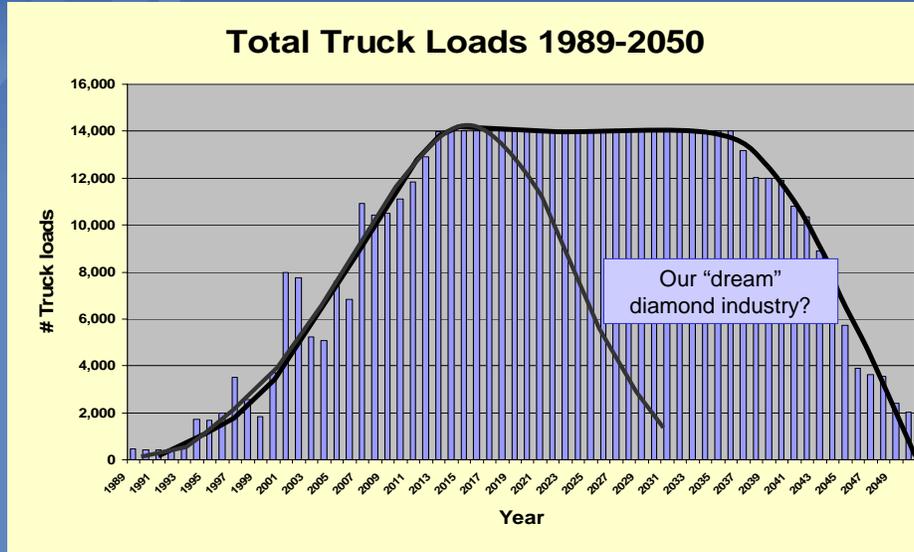
So we've established that diamonds are BIG. But can we keep them BIG? And for how long?

This graph was created as part of our work on transportation, and you will see it again this afternoon during Erik Madsen's talk on the ice road.

What's helpful here is that it indirectly gives us a picture of our industry's future. The number of truckloads links directly to production at the mines, and mine life. So this is a map of our Diamonds future as we see it today.

It tells us that the current diamond industry we have created will last about another 20 years (if Gahcho Kue goes ahead), and that it will start to tail off in about 15 years.

Goal: Keep Diamonds BIG Longer

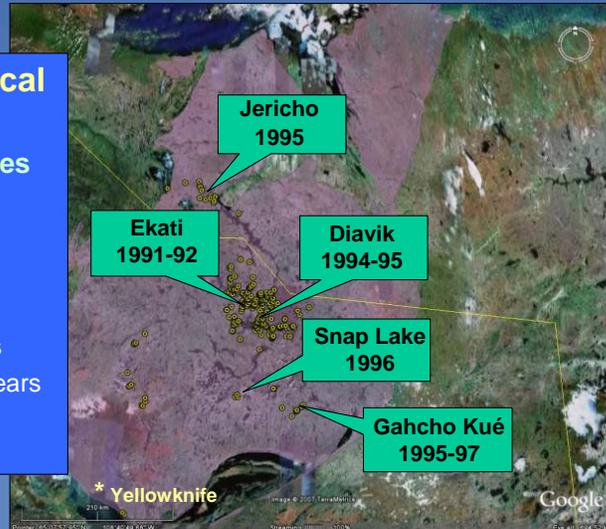


Our goal should be to extend mining 's life beyond the view we have now. South Africa has a 100 years of diamond mining. Could we stretch ours to 50 years? Why not?

Some Warning Signs

- **The Slave Geological Province**

- Few new discoveries
- Long discovery to production time
 - Ekati – 6 years
 - Diavik – 8 years
 - Jericho – 11 years
 - Snap Lake – 11 years
 - Gahcho Kue – 13 years?



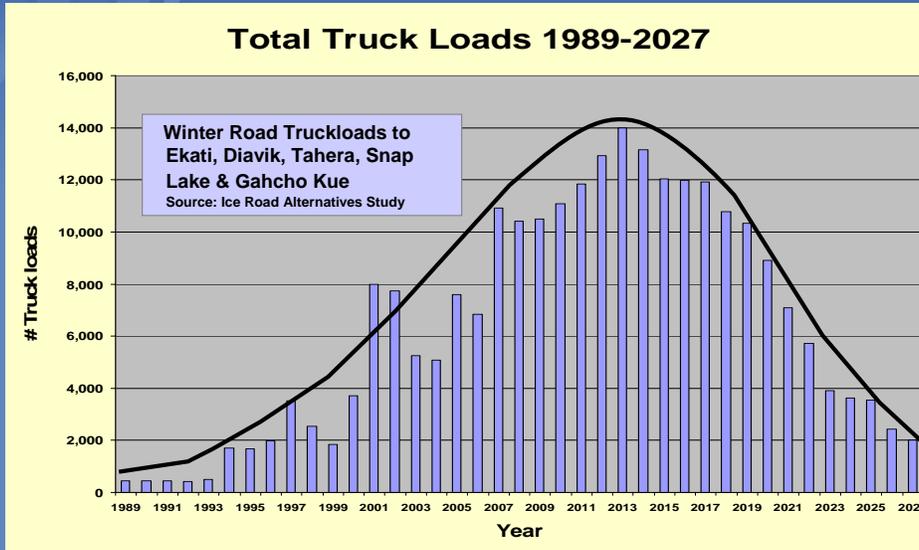
There are some warning signs out there, that tell me that we need to be thinking of growing the diamond industry NOW.

There are two important observations in this slide:

1. Our mines are all old discoveries. Where are the new ones?
2. Second, it takes a long time to take a discovery to production. In fact, the trend is that it's taking longer all the time.

Given the long lead time, and the difficulty finding deposits, we need to sit up and take notice.

Can We Keep Diamonds a BIG Thing?



Given the long times required from discovery to production, we might look at this graph of our diamond mining industry with a new set of eyes, and understand that we need to begin taking steps now to help extend the industry's life.



How Can We Keep Diamonds BIG?

1. **Protect our existing mines**
2. **Find more high quality diamond deposits**
3. **Make lower quality diamond deposits economic**
4. **Leverage other opportunities**
5. **Hedge your bets ... do all of the above**

So what how can we do to extend the mining curve? Well, there are 5 things I think we should do. Let me speak to each of them in the following slides.



1. Protect Our Existing Mines

- **Existing mines face two major pressures**
 - Ice road transportation challenges
 - Rising costs

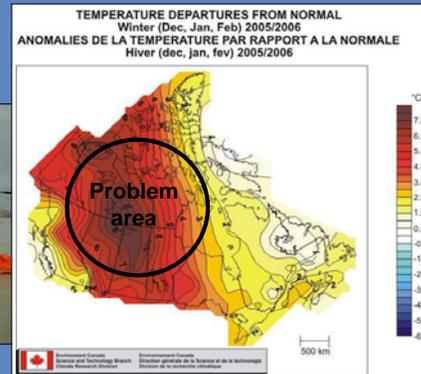
First thing is to protect our existing mines. If we can't do that, then there is no point in doing anything else.

The mines face two major pressures:

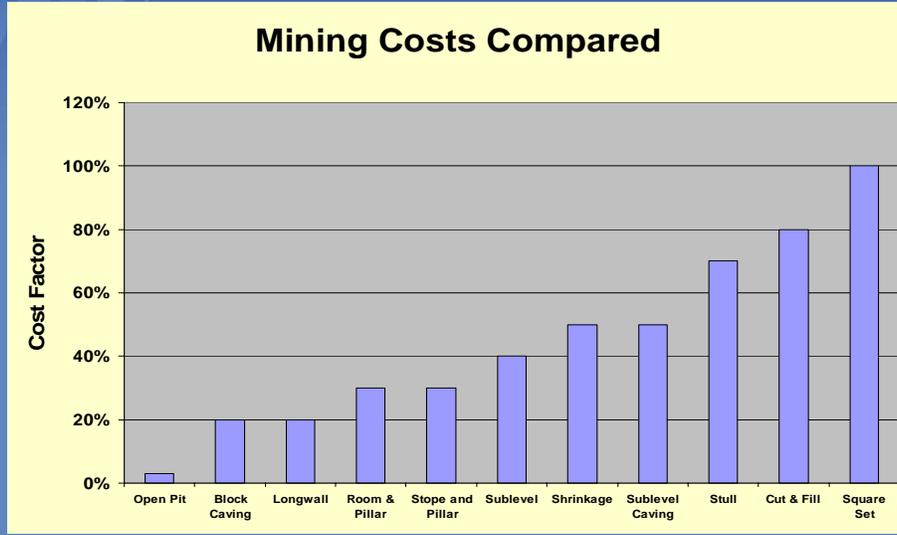
1. Climate change and the ice road is the biggest business risk we diamond miners face.
2. And rising costs

Ice Road Challenge

- **The ice road is our largest business risk**
- **Under pressure from:**
 - Climate change
 - High capacity expectations
- **Another warm winter could have significant effects**



Cost Pressures – Mining



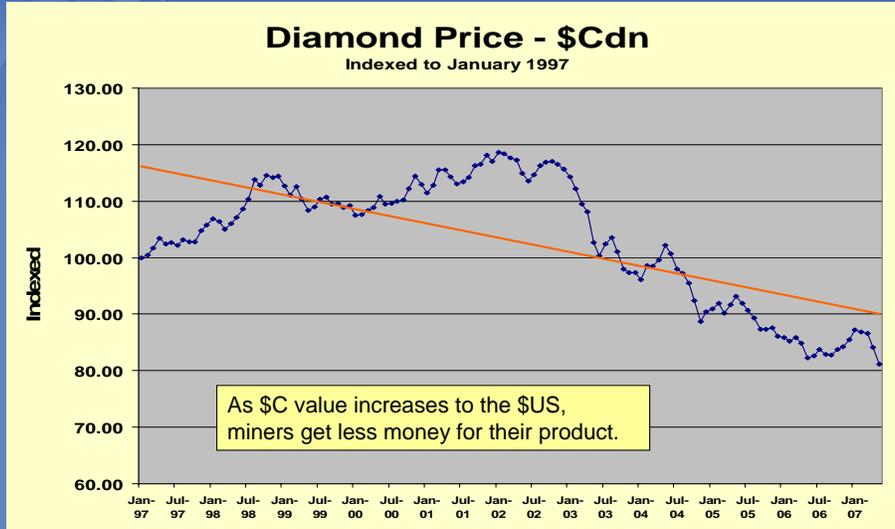
Let me give you a few thoughts on some of the rising costs we are facing.

We are all going underground, which carries higher costs than open pit mining. This chart is largely from a manitoba study that showed the relative differences in mining costs. You can see that open pit mining on the extreme left, is much cheaper. Diavik is going underground, and our costs will be somewhere to the right of the chart, and I believe BHP’s mining method puts them somewhere in the middle of the chart. The point is that our costs will increase.

Source of underground mining costs compared is from University of Manitoba from this location:

<http://66.225.140.1/minsci/ug/undergm.htm>

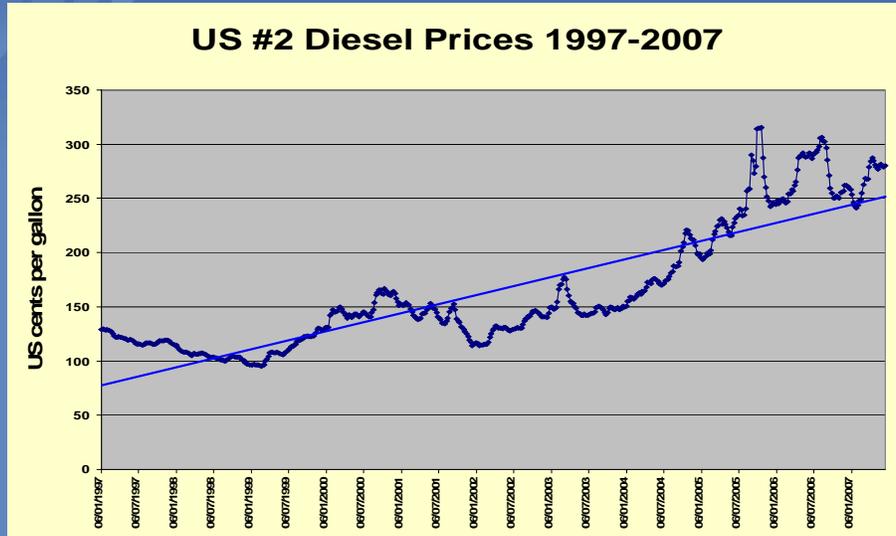
Cost Pressures – Exchange Rate



The Canadian dollar reached parity briefly today, and that is big news. But it's not good news for us. We don't like it. Here is why.

This is NOT a map of Diavik's diamond prices, or BHP's or De Beers. It is a way to show you what the value of a \$100 stone would be in Canadian dollars starting in 1997. You can see in particular, from 2003 on, we saw a steady erosion in the Canadian dollars we received for diamonds.

Cost Pressures – Energy



And fuel costs have been rising quite steadily, nearly doubling in the last 10 years. Remember that these are costs that we have to eat, ie, we can't pass any of these on to the consumer.



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The other thing we can do to extend the mining curve/life is to find more world class deposits.

2. Find More Quality Diamond Deposits

- **The Slave Geological Province**
 - ~ 300 kimberlites already discovered
 - Could be more world class deposits
 - **But don't hold your breath**
 - *NRCan: Of the 5,000 kimberlites known worldwide, between 300 & 500 contain diamonds, and of these, less than 50 commercial, and 25 major producers.*
 - **We're already beating the averages**
 - **But don't stop looking!**



Maybe we can find more quality diamond deposits.

The Slave Geological Province, where the diamond mines are located, is now known to host about 300 kimberlites. Not all of these have been fully explored. This will take time, but perhaps there are more world class deposits hidden among them.

However, I wouldn't hold my breath, as the odds are against us.

According to Natural Resources Canada: *Of the 5,000 kimberlites known worldwide, between 300 & 500 contain diamonds, and of these, less than 50 commercial, and 25 major producers.*

Doing the same math here in the Slave: Of 300 kimberlites, there would be 30 containing diamonds, 3 commercial, and 1.5 major producers.

I would say then, that we are already beating the averages, which is great. This might signal that there may not be any more world class deposits.

That being said, however, we cannot stop looking for them.



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If there are no more world class deposits, then we must lower our sights and make lower value rock valuable enough to mine.

3. Make poorer deposits economic

- **Infrastructure proposals that could drive costs down**

1. **Southern Seasonal Overland Route plus ice road**

- Remove business risk and future cost liabilities
- Add 1 month and extra capacity to shipping season

2. **Cheap Hydropower**

- Reduce freight on ice road, and provides lower power costs

3. **Northern Bathurst Inlet Port & Road**

- Adds extra capacity to supplement the southern ice road & provides lower transportation costs

So, if we can't count on finding more world class deposits like we have now, then what?

Well there are many other kimberlites of lower quality that might be mineable if costs were brought down.

There is not much we can do about fuel prices, exchange rates, and mining costs, but there may be something we can do on transportation costs.

There are 3 infrastructure proposals on the table that could help us drive down costs.

I'm not going to get into details on these, as there are speakers that will talk to each of these later this afternoon. Suffice it to say though, that these infrastructure developments could not only keep diamonds BIG, but also provide opportunities for new commodities to be mined.



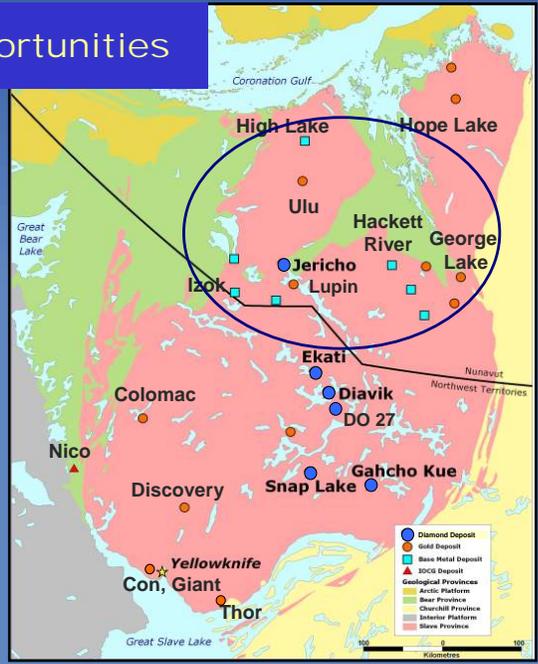
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The fourth thing we can do is leverage other opportunities.

4. Leverage other opportunities

- **The North Slave Geological Province**
 - Attractive geology
 - Many known deposits
 - Infrastructure poor
- **Opportunity**
 - Commodity prices, sovereignty concerns, political support can help build new mines & infrastructure
 - Would make the economic pie bigger for NWT & Nunavut
 - Cheaper transportation in diamond back yard



The North Slave Geological Province has some very good mineral potential. But it is in base metals which require bulk transportation.

The planets are aligning with commodity price records, sovereignty politics, and local government support that can make it their time for development.

This could put cheaper transportation into our diamond mines backyards. We would be foolish not to take advantage of that.

I'd also like to say that these new mines would increase the opportunity pie in the North, and could provide new opportunities for Yellowknife, for other Aboriginal and non-Aboriginal companies, etc. to benefit. Not a bad thing.



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Finally, I believe that in reality, we need to hedge our bets, and work on all of these initiatives to keep diamonds big for longer.



Conclusion

- **Diamonds really are a BIG thing**
- **More of this really BIG thing can be the NEXT BIG thing!**
- **BUT... we need to:**
 - Protect our existing operations,
 - Encourage exploration to find more,
 - Drive down costs with new infrastructure, and
 - Help make lower quality deposits economic

My conclusions to summarize what the points I made today.

Thank you.