**Chamber of Mines News Briefs – January 13 - 15, 2013**

[**Note**: News headlines are hyperlinked to their stories in this document.]



## ABORIGINAL NEWS

### Time has come for First Nations to be partners in resource development

Hill Times – January 14, 2013

HAROLD CALLA

SQUAMISH, B.C.—In my six years as the chair of the First Nations Financial Management Board, I have spent many hours consulting First Nations and I have noticed big changes in those conversations.

When I first started, the conversations were usually about fiduciary duty under the Indian Act. Today the conversations are about financial autonomy and the emerging aboriginal economy. This should not be a surprise because the board I represent and its governing legislation were initiatives originating with First Nations.

The current attention on major resource projects involving First Nations is timely. These projects represent an opportunity for aboriginal people to break free from dependency under the antiquated Indian Act.

If Canada's economic future is tied to energy and natural resource exports, then the reality of First Nation participation needs to be embraced by all stakeholders. Participation in revenue sharing and securing equity participation are necessary elements of the impact benefits agreements that result from federal constitutional duty to consult and accommodate First Nations.

Some $500-billion in resource development projects in Canada involve land in the hands of First Nations. In addition, Canadian courts have steadfastly upheld the federal duty to consult aboriginal communities on all material matters.

Success of Canada's economic strategy is linked to inclusion of First Nations in development of our economy.

The major issue that needs to be overcome is the current inability of First Nations to access the capital markets to raise debt and equity in the magnitude required for the major initiatives. It's in the national interest for Ottawa and the provinces to support solutions to this problem such as loan guarantees.

First Nation participation in these projects, through a share of royalties and equity, will enable communities to plan and build healthy First Nation economies around the country.

Great examples of resource revenue sharing deals already exist—for example, the $3.4-billion agreement between the Grand Council of the Cree and Quebec in 2002. As well, British Columbia's stance on revenue sharing toward new mining projects emphasizes a strong focus on community development to assist First Nations in achieving their social and economic goals.

Healthy and well-managed First Nation economies that break dependency on the Indian Act and empower First Nations to elevate living standards are in the best interests of all Canadians.

This is why top business leaders in non-aboriginal Canada such as John Manley, president of the Council of Chief Executives, have joined our National Chief Shawn Atleo, in urging governments to make First Nations direct beneficiaries of the country's bounty of resources.

Let me point to the Prime Minister's recent announcement of $6.2-billion in loan guarantees for the Muskrat Falls power project on the Lower Churchill River in Newfoundland-Labrador.

The Innu—after some hard bargaining—will receive five per cent of the royalties from this project and first crack at local job creation. This means years of steady, predictable revenue.

Loan guarantees represent far better value for money than the costs of litigations and land claim negotiations.

Unfortunately, there is a widespread perception in financial markets that projects involving First Nations have high risk despite a string of successes. Canada and provinces need to turn this perception around through their support. This is also where my organization comes in.

The First Nations Financial Management Board exists to offer support and guidance to First Nations in establishing capacity and confidence. Established under the First Nations Fiscal and Statistical Management Act, the board sets standards and offers certification.

Several First Nations have already taken advantage of our certification services to greatly reduce borrowing costs.

The Indian Act of 1876 was designed to keep First Nations dependent. The First Nations Fiscal and Statistical Management Act is designed to foster financial independence.

If Canada's First Nations are able to be equity partners in the country's growth, such projects as Northern Gateway and Ring of Fire have a much better chance of become reality.

Partnership and entrepreneurship trump confrontation and rhetoric every time.

Harold Calla is a member of the Squamish First Nation in B.C., and chair of the First Nations Financial Management Board.

## Could resource sharing actually work?

Leader Post – January 15, 2013

Murray Mandryk

If one mentions resource sharing with First Nations, this line is about where the conversation would end.

But what if we didn't call it that? What if we framed the discussion in terms that everyone - including participants in the Idle No More movement - seem to want?

Suppose we didn't call it resource sharing: Suppose we framed it as addressing quality-of-life issues for all aboriginal people via education and job skills training leading to employment opportunities.

Suppose we directed our energies to innovative solutions like applying new resource royalties to education/job training sponsorships? Suppose thriving oil, gas potash and mining companies were offered specific royalty/tax incentives for each aboriginal student they sponsored and/or hired?

And suppose such incentives for sponsored aboriginal students were only made available upon completion of university degrees or skills training programs?

Of course, this might not even be the right conceptual model. But there are countless ways of converting the value of resources into solutions for aboriginal unemployment and other social issues. Programs could be set up to apply resource revenues to address life-skills issues for aboriginal people at a much earlier age - using royalties and/or corporate tax/royalty breaks for enhanced early childhood development programs and family support that could be followed up with stay-in-school programs.

The point is, there still are solutions out there if we start to better understand the problem and its history and abandon our stubborn notions and prejudicial views that First Nations treaties are only for First Nations people, or that just a little more tiresome squabbling will magically produce a solution that has somehow eluded us in the past 100 years of tiresome squabbling.

It's all too easy for the rest of Canadian society to keep believing that treaties are exclusively about First Nations and that a system that brought us the Indian Act, reserves, residential schools and a century of aboriginal poverty is conceptually superior to the townships of apartheid South Africa that Canadian governments fought to end. Harder to understand is that we have societal and even contractual/treaty obligations to keep looking for solutions.

It's just as easy for First Nations people - including those in Idle No More - to dwell on these past failings, view treaty deliberations or a rewritten Indian Act as the only solution and blame everything on a federal government that often seems no more capable of conducting its own affairs (see: a great Twitter feed called #Ottawapiskat) than local band councils.

Harder to accept is that the First Nations leadership hasn't always had grassroots' interests at heart, that solutions won't be found in the age-old battles over the treaties and the Indian Act and that maybe the federal Conservatives' push for First Nations band transparency/ accountability or even scrapping the Indian Act makes some sense.

But even more egregious right now than misunderstanding is missed opportunities.

For example, while there was much humour Monday on #Ottawa-piskat's comparing Prime Minister Stephen Harper's Venture Capital Action Plan that benefits the business sector with a chief doling money to favoured band cronies, it was also disheartening. Wouldn't such corporate giveaways be more justifiable if they were structured as incentives for aboriginal education/ job training and hiring? Doesn't that at least make sense?

Nevertheless, we could still accomplish a lot - especially at the provincial level, which is responsible for both natural resources and education.

In that vein, would it not be possible for Premier Brad Wall's government to develop royalty agreements and/or tax incentives that resulted in Cameco, PotashCorp, the oil companies, the Crown corporations and any other businesses supporting the education/job training and hiring of First Nations students at the universities, SIAST and especially SIIT?

Could such provincially driven initiatives be supported by the federal government through current health and social transfer? Wouldn't such creative solutions work better than the current squabbling over federal transfers?

Suppose we stop confining our thinking to what's failed aboriginal people for the past 100 years?

## NUNAVUT NEWS

### Northwestel brings higher-speed internet to Cambridge Bay

***For the first time, telecom firm offers 2.5 Mbps outside Iqaluit***

Nunatsiaq News - January 14, 2013

BRIELLE MORGAN

Northwestel now offers faster internet service in Cambridge Bay, the first Nunavut community outside Iqaluit to be offered broadband DSL internet.

The company's new DSL service will offer download speeds up to 2.5 Mbps (megabits per second,) with a download cap of 20 GB per month.

At that speed, it takes about three hours to download a two-hour movie, said Joel Witten, Northwestel's associate marketing director.

Their new DSL modems also come with a built-in wireless router that customers can use to set up a wireless network at home.

At the old maximum speed of 1.5 Mbps offered by Qiniq and Northwestel (through its Netkaster satellite dish service) it takes maybe five hours to download the same amount of data, Witten said.

To access the new high speed service, Cambridge Bay residents will need two things: $129.95 per month and a phone line, since DSL Internet uses "the existing copper that runs into people's homes."

The higher speed is enabled by "a lot of Internet delivery equipment" installed in the "core switching hub" of the community, Witten said.

"It's the first time outside of Iqaluit that we've implemented this kind of infrastructure in Nunavut."

Northwestel agents were available at the Northern store in Cambridge Bay Jan. 11 and Jan. 12 to demonstrate the new service and field questions from the community.

Witten says Northwestel is looking to build similar upgrades into other northern communities, but he wouldn't specify when and where.

This boost to Cambridge Bay's internet is not part of Northwestel's modernization plan — mandated by the Canadian Radio-television and Telecommunication Commission at the end of 2011.

Following a public review of the northern telecommunications industry, the CRTC called on Northwestel to improve and expand its service.

Since 2007, the 60-year-old company has received about $20 million a year to offset the cost of offering copper-wire landline telephone service in the many remote communities within its service area.

That subsidy, mandated by the CRTC about 12 years ago, flows from contributions made by all of Canada's telephone companies.

That subsidy only compensates for the cost of local telephone service, not internet.

But last year, the CRTC found that Northwestel, which is owned 100 per cent by Bell Canada, was not reinvesting enough of its profit back into its network and gave Northwestel six months to form "a comprehensive plan to modernize its network infrastructure."

"Despite Northwestel's strong financial performance and overall capital spending which appears to have been in line with industry standards… the company has yet to modernize its aging network infrastructure," the CRTC said.

This long-term plan has been under review by the CRTC for over a year. Witten says it's due for approval this month – but it may not be made public at that point.

“[The CRTC] may request changes. So we won’t really publish it until it’s fully determined exactly what service set will be where,” Witten said.

The new plan will outline when and where service upgrades will take place.

For now, Iqaluit and Cambridge Bay remain the only communities in Nunavut where maximum broadband internet speeds are greater than 1.5 Mbps.

That said, the CRTC has set a goal of at least 5 Mbps for all Canadians by 2015.

“The CRTC anticipates that this target will be reached through a combination of private investments, targeted government funding and public-private partnerships,” the CRTC said when it announced the goal in May 2011.

However, the federal government is keeping its plans under wraps.

The current system of Industry Canada subsidies, which are vital to the operations of the Qiniq network and other internet providers across northern Canada, is due to expire in 2016.

Federal Industry Minister Christian Paradis promised a new digital strategy by the end of 2012. He has yet to make an announcement.

## RESOURCE DEVELOPMENT AND ENERGY NEWS

### Mine training to evolve with projects, says training society

NWT News/North – January 12, 2013

Lyndsay Herman

A strategy encompassing all elements of the Northern mining workforce could be in place as early as 2015, according to the NWT Mine training society.

"The plan is the territories would collaborate so there wouldn't be a reproduction of curriculum in three different jurisdictions, we'd all work on one, share experience and expertise in different areas," said Hilary Jones, general manager of the society which works in both the NWT and Nunavut.

"(The strategy) looks at everything from community engagement to remediation. The whole ball of wax, not just operational stuff."

The initiative came on the wake of the federal government's decision not to continue funding for the highly successful Aboriginal Skills and Employment Partnership (ASEP) program beyond March 31, 2012.

"First and foremost I think you have to realize that ASEP was a very successful program in the North particularly and the NWT was really the leader," said Tom Hoefer, executive director of the NWT and Nunavut Chamber of Mines. "Both the Yukon and Nunavut then took the NWT model and used it to good effect in their territories."

While ASEP was a national program, the new strategy would have a Northern focus in order to build on past successes and address the opportunities present in Canada's three territories, Hoeffer added.

Jones said NWT and Nunavut each share a need for people trained in underground mining, mineral processing, and heavy equipment operating. The Yukon has a greater focus on the development of their professional workforce training, such as degrees in mine engineering.

Hoeffer said new demands for training, such as long-haul truckers, port operators, and new types of process plan operators could emerge as projects like Hope Bay, the Izok Corridor proposal, and Ariva's Uranium project take shape over the next few years.

The strategy, still in a "chatting stage" is asking for $100 million from the federal government over five years matched by industry, territorial governments and aboriginal governments for all three territories, Jones said.

### More training needed

Are the NWT's three diamond mines failing to live up to their obligations when it comes to hiring Northern workers?

On paper, the answer would appear to be yes. According to 2011 statistics from each of the mines and the GNWT figures, target employment rates for Northern residents were between eight and 24 per cent below what was agreed to in the socio-economic agreements.

Since the numbers were revealed, the mines have been criticized for not doing enough to meet those targets. However, the NWT Mine Training Society - tasked with preparing territorial workers for mine jobs - believes the population can't provide the bodies necessary.

In December, the NWT Bureau of Statistics reported there were 24,400 people in the territory's workforce. Although 1,800 were listed as unemployed, Hilary Jones, general manager of the mine training society, says that does not translate into 1,800 potential miners.

These days, 90 per cent of mine workers need trades and technology training or some other type of specialization. Employees also must be available to work away from home for two-weeks at a time, which eliminates the large number of single parents in the NWT - 2,330 in 2006 - who are unable to commit to that kind of time away from home.

Jones adds those issues combined with communities such as Aklavik, which are far from a designated pickup locations - meaning employees would have to pay costly airfares to get to work - and competition from other employers, makes finding the necessary workers in the North difficult.

According to the mine training society's annual report for 2011/2012, 20 training courses, ranging from underground mine training to heavy equipment operator, were offered to more than 100 potential new employees. The vast majority of training participants completed the courses. Many of the courses also had waiting lists because they were over enrolled.

Next year, Jones said the society plans to offer additional programs but she admits more can be done and the society is hoping for additional funding to make that happen.

On the wish list is $100 million over the next five years for a pan-territorial mine training society. Funds would come from the federal government with matching funds from industry, territorial governments and aboriginal governments.

Unemployed or underemployed workers also have a responsibility to seek the available jobs, especially as agreements have been signed to virtually guarantee work, provided the necessary training has been achieved. And once they get those jobs, new employees must be committed to

keeping them by adhering to workplace schedules and rules. Increasing the number of Northern pick-up points to smaller communities would help.

Our small population might make meeting the targets difficult but with more investment in training and improved access, we can improve the number of Northerners benefiting from the mines.

### Swatch Group buys Harry Winston brand for $750-million

Reuters – January 14, 2013

Silke Koltrowitz

Jeweller Harry Winston is selling its high-end watches-to-necklaces division to Swatch , in a $750-million cash deal that expands the Swiss watch maker’s luxury offering and lets the Canadian group concentrate on its diamond mines.

Monday’s deal reverses a 2004 acquisition which turned the mining group that discovered Canada’s Diavik deposit – now controlled by Rio Tinto – into a miner and jeweller.

The original mining arm is renamed Dominion Diamond Corp. after the sale of Harry Winston, which started as a small jeweller in New York in 1924 and rapidly became a favourite with movie stars.

For Swatch, the deal is evidence of the benefits of strong Asian demand for watches, handbags and other high-end items that has given companies the firepower to expand their portfolio.

Harry Winston – which Marilyn Monroe mentioned in her song “Diamonds are a girl’s best friend” – has the potential to generate more than 1 billion Swiss francs ($1.10-billion U.S.) in sales and 250 million net profit in about 4-5 years, Swatch’s chief executive officer Nick Hayek said.

A 20-25 per cent net profit margin was in line with group profitability, Mr. Hayek told Reuters in an interview. “If watches continue to grow as dynamically as in 2012, 9 billion franc sales are within reach in 2013. Now in view of this acquisition, it can of course be even more,” he said.

Swatch Group is already the world’s biggest watch maker by sales, with 8.1 billion francs sales in 2012 thanks to brands such as Omega. Buying Harry Winston allows it to enter high-end jewellery, a market dominated by Richemont with its flagship brand Cartier.

The mining arm and the jeweller will continue to work together through a diamond sourcing deal under Monday’s purchase, which includes Swatch taking on $250-million of debt. The two companies will also consider opportunities for a joint diamond polishing venture.

“From a strategic perspective it is positive – Swatch Group has long said it wanted to expand in jewellery,” Kepler Capital Markets analyst Jon Cox said. “At first glance it does not look cheap, but that is probably more a reflection of the profitability of Harry Winston at this stage, which is in ramp-up stage in terms of expansion.”

Reuters reported in October last year that Harry Winston was considering splitting off and selling its watch and jewellery business. At the time, analysts put the value at around $770-million, but said they expected a premium, comparing the deal with the acquisition of jeweller Bulgari by the world’s biggest luxury goods group LVMH for $5.2-billion in 2011.

“We estimate an enterprise value to EBITDA (earnings before interest, tax, depreciation and amortization) of 23x, which looks expensive but already LVMH paid 21x for Bulgari,” Vontobel analyst Rene Weber said.

“For Swatch Group we consider this as a positive move as it fills the gap in the high-end jewellery watch brand after the disaster with Tiffany. And it is also a positive move as Swatch Group can use its cash of 2 billion francs,” he said.

Swatch Group ended a partnership with jeweller Tiffany in 2011.

Shares in Swatch Group were up 4 per cent at 0957 GMT, outperforming a 1.5 per cent rise in the sector index.

“The Harry Winston brand now has a new home that can provide the skills and support that it deserves to realize its true potential,” said Robert A. Gannicott, chairman of the board and chief executive of Harry Winston Diamond Corp.

For the mining arm, this will focusing on becoming one of a handful of pure-play diamond companies at a time when the gems are increasingly scarce and prices are expected to rise.

Harry Winston bought BHP Billiton’s EKATI diamond mine in November for $500-million, betting on rising prices. Its partner in Diavik, mining giant Rio, is also reviewing its involvement in diamonds and could sell operations which include Diavik and the Argyle mine in Australia, famous for its pink diamonds.

Harry Winston was made famous by Marilyn Monroe’s reference in the film Gentlemen Prefer Blondes. Every year the firm lends out hundreds of millions of dollars’ worth of jewels to be worn by movie stars at events like the Oscars.

Mergers and acquisitions in the watchmaking industry have also been boosted by Swatch Group’s decision to cut back on watch component and movement deliveries, forcing peers to improve their access to watchmaking know-how.

Swatch Group itself has bought more than a dozen component makers over the last 10 years, its most recent buys being watch case maker Simon & Membrez and a 60 per cent stake in case polisher Termiboites last year.

The last watchmakers it took over were high-end brands Glashuette Original and Jaquet Droz in 2000.

Rothschild advised Harry Winston on the transaction.

### Nunavummiut surprised at change in Baffinland plans

***Iron Mine owner announced it will scale back for first 3 years***

CBC News – January 14, 2013

Some people in the Baffin region are wondering what will happen now that Baffinland Iron Mines announced a change of plans for its Mary River mine in Nunavut.

Last week, the company said it wants to scale back output by about 80 per cent for the first three years.

"It was a little bit of a surprise," said Colin Saunders, the economic development officer for Pond Inlet, Nunavut.

Saunders said Baffinland has already provided jobs, contracts and opportunities for people in the community and is still the biggest thing likely to happen in the region in his lifetime.

"There are a lot of people within the community that are remaining optimistic that this moves forward."

Okalik Eegeesiak, the president of the Qikiqtani Inuit Association said she was also surprised at the news. But she said she sees a positive side to the change.

"Maybe a little bit of a relief that the project will be slower, that it won't be as big as what they'd hoped from the beginning," she said.

Eegeesiak said the new plans won't affect the Inuit Impacts and benefits agreement, a document which has yet to be signed.

Eegeesiak said the QIA will still work to get the best deal for Baffin Inuit. She also added that the announcement shows Baffinland is still committed to the massive Mary River project.

"Given the market situation, they could have decided to scrap it or postpone it for several years."

### Pond Inlet surprised, but ready to work with Baffinland

***“It was quite the surprise, the hamlet really wasn’t anticipating that announcement”***

Nunatsiaq News - January 14, 2013

SAMANTHA DAWSON

The Baffinland Iron Mines Corp.’s Mary River iron ore project, recently reduced from a plan to ship 18 million tonnes of ore year round to 3.5 million tonnes a year in the summer, will still benefit the North Baffin region, said Colin Saunders, the economic development officer in Pond Inlet.

With the corporation now planning to ship ore out of Milne Inlet — delaying plans for a railway at Steensby Inlet — Pond Inlet will be more affected than originally expected.

This comes after a Jan. 10 announcement that the huge project would be scaled back significantly due to "tight financial markets."

"It was quite the surprise, the hamlet really wasn't anticipating that announcement," Saunders said.

But people are still hoping that the community and the company will have a good working relationship in the future, he said.

"We do have our outspoken people who have environmental concerns, but generally I think that a lot of community members are optimistic on the project still," he said.

That's because the hamlet has been working with the company since "day one," Saunders said.

Even though the project might be moving forward a little bit more slowly than first thought, it's good that Baffinland is moving ahead with it, Saunders said.

"There are other potential deposits around the world that are being put on the back burner. In my mind it's a good thing that Baffinland is still focusing on developing the project," he said.

As Pond Inlet's economic development officer, Saunders wants to maintain the positive partnerships that the community and the company has had, he said.

That means economic benefits to people, such as employment opportunities and other contracts.

Considering the potentially positive economic spin-offs for the North Baffin region, the Mary River project can help businesses in the Arctic, he said.

And those opportunities can last for a longer period of time, "should everybody come to an agreement on what's going to happening out at the site."

"If permits are lined up and if regional Inuit organizations with the communities can sign off on an [IIBA], then hopefully we can see what other positive benefits can come through," Saunders said.

But Ryan Barry, executive director of the Nunavut Impact Review Board, said he can't yet comment on what direction the board will take in its response to Baffinland's announcement.

The NIRB plans to send a letter to governments and agencies on its distribution lists, who are involved with the project, outlining what the board will need to do.

The board recently issued a project certificate to Baffinland for the Mary River project last year, late in December.

The NIRB's next moves will be explained in the letter, which allows an "opportunity for public comment," Barry said.

However, Baffinland's decision to postpone a significant portion of the project under a "phased approach" wasn't anticipated, he said.

Rapaport – January 14, 2013

## Harry Winston Sells Luxury Brand Division to Swatch

***The Swatch Group purchases Harry Winston's luxury jewellery and timepiece division for $1 billion***

Businessreviewcanada.ca – January 14, 2013

Kristin Craik

Harry Winston Diamond Corporation announced today its plans to sell its luxury brand diamond jewellery and timepiece division to the Swatch Group for $750 million USD. The Swatch group will assume up to $250 million USD of pro forma net debt.

"At the time that we purchased the Harry Winston brand, resource investment opportunities for diamonds were rare and expensive following the euphoria of the Canadian diamond discoveries, and the involvement of the large international mining companies. The Harry Winston brand was competitively priced compared with its peers and we could bring diamond expertise and strategic connections to enhance value. Today there is a range of diamond resource opportunities while the value of heritage luxury brands has increased dramatically. This transaction represents a sound return on our original investment. It will leave us well equipped to realize upstream opportunities in an environment where cash has become a strategic resource while preserving and expanding our relationship with the downstream diamond business," said Chairman and CEO, Robert Gannicott.

Rumours of Harry Winston's interest in selling its luxury brand surfaced in October of 2012. Under the agreement, the Harry Winston luxury division will renamed to Dominion Diamond Corporation and will work continue to work with Swatch in the provision of polished diamonds. The companies also plan to explore the opportunity of a joint diamond polishing venture which would benefit from each company's expertise in both manufacturing and diamonds.

"Harry Winston brilliantly complements the prestige segment of the Group. We are proud and happy to welcome Harry Winston to the Swatch Group family - diamonds are still a girl's best friend," said Nayla Hayek, Chairwoman of The Swatch Group.

### Harry Winston to focus on mining after deal with Swatch

Globe and Mail – January 14, 2013

PAV JORDAN, BERTRAND MAROTTE

Harry Winston Diamond Corp. is selling its storied luxury retail unit to Switzerland's Swatch Group Ltd., leaving the company to focus squarely on the business of mining after eight years as a high-end jeweller.

Months after the company said interested parties were circling its diamond jewellery and watch business, Harry Winston said on Monday that it's selling the operation to Swatch for $750-million (U.S.), giving it a healthy cash injection as it eyes an industry ripe for consolidation.

Including $250 million in assumed net debt, the deal has an enterprise value of $1-billion, worth nearly three times what Harry Winston paid for the assets.

For Swatch, the world's number one maker of finished watches, the deal fills a gap in the high-end jewellery business after the collapse of a partnership with Tiffany & Co. in 2011.

"It's a match made in heaven," said Jon Cox, head of Swiss research with Kepler Capital Markets in Geneva.

Once the deal closes, Harry Winston is to be renamed Dominion Diamond Corp., its latest move in recent months to push deeper into diamond mining after agreeing in November to buy a controlling stake in Ekati, Canada's oldest diamond development, from BHP Billiton Ltd.

Analysts say Harry Winston will likely now go after the 60 per cent it does not already own in Diavik, the mine in the Northwest Territories that is adjacent to Ekati and which is majority controlled by global miner Rio Tinto Ltd.

"This transaction represents a sound return on our original investment. It will leave us well equipped to realize upstream opportunities in an environment where cash has become a strategic resource while preserving and expanding our relationship with the downstream diamond business," CEO Robert Gannicott said in announcing the transaction.

BMO Nesbitt Burns analyst Edward Sterck said other companies exploring in northern Canada could also pique the interest of a new Harry Winston, including Mountain Province Diamonds and Stornoway Diamond Corp.

"But I suspect the focus will be more toward Diavik, which is in production and where it is a minority shareholder," he said.

“There are several companies with projects and short of capital; HWD (Harry Winston Diamonds) has experience in diamond mining and now has capital,” Irene Nattel, an analyst with RBC Dominion Securities, said in a research report.

Harry Winston was turned into the miner and retailer it is today in 2004, when Canada’s Aber Diamond Corp. acquired a controlling stake in Harry Winston Inc., the 70-year-old legacy of a U.S. jeweller famous for lending choice pieces to Hollywood stars and starlets for appearances at the Academy Awards. It acquired the rest of the company in 2006.

Speculation that the retail business would be spun off has swirled for years, but talk intensified in October when the company said it received several expressions of interest.

In selling its retail arm, Harry Winston Diamond becomes one of only a few pure-play diamond miners in the world at a time when prices appear poised to pick up after falling off a cliff in 2011.

Demand could rise as economies recover in the United States and Europe and as the ranks of the middle class swell in China and India, creating new customers for the gemstones.

Harry Winston will retain a relationship with Swatch, one of the world’s largest buyers of polished diamonds, in sourcing polished diamonds for the watch company, Harry Winston Diamond said in the news release.

The two companies also plan to explore the potential for a joint diamond-polishing venture.

“Harry Winston does brilliantly complement the prestige segment of the group,” said Swatch chairwoman Nayla Hayek.

## Swatch buys jewellery group for $1bn

Financial Times – January 14, 2013

James Shotter in Zürich and Helen Thomas and Anousha Sakoui in London

Swatch Group is to buy Harry Winston Diamond Corporation’s jewellery and watch division for about $1bn, in a move that will help realise the Swiss watchmaker’s long-held aim of increasing its presence in the jewellery market.

Switzerland’s largest watchmaker by sales will pay $750m in cash for the Toronto-listed luxury brand as well as assuming up to $250m in debt, making the deal Swatch’s biggest since its creation in the 1980s.

Analysts said the deal, under which the two companies will also explore the possibility of setting up a joint diamond-polishing venture, made strategic sense for Swatch but was expensive.

“Swatch has been saying for a while that they want to get into the jewellery business but have never really got off the ground, so from that perspective it makes sense,” said Jon Cox, head of Swiss research at Kepler Capital Markets. “The joint venture in diamond sourcing is also positive, since Swatch has said in the past that it has had problems getting its hands on diamonds.”

However, Mr Cox said, at first glance the deal looked expensive, valuing the business at 23 times its earnings before interest, tax, depreciation and amortisation expected for the year to January 31. The average for the sector was 10.

Nayla Hayek, Swatch’s chairman, said the deal would add to her company’s upmarket brands such as Breguet and Blancpain.

For Harry Winston, which in November agreed to buy the Ekati diamond mine in Canada for $500m from BHP Billiton, the deal represents a strategic shift, uncoupling its luxury retail operations from its upstream, mining assets.

Robert Gannicott, chairman and chief executive of Harry Winston, said the sale represented a sound return on the Canadian company’s original investment. Harry Winston, then called Aber Diamond

Corporation, acquired the luxury jewellery brand in a two-part deal in 2004 and 2006. The total cost plus subsequent investment in the business came to $294m.

“One of the main reasons that we bought Harry Winston . . . was that we wanted to have the information flow from the polished diamond end of the business to enable us to nimbly price rough diamonds,” said Mr Gannicott, adding that those channels would be maintained, or even expanded, under the Swatch deal.

Mr Gannicott said the move by the world’s biggest mining groups, BHP and Rio Tinto, to sell their diamond assets in Canada’s Northwest Territories was “too good an opportunity to miss”.

Harry Winston has a right of first refusal over the 60 per cent stake in Rio’s Diavik mine that it does not already own and is expected to pursue buying that asset, in the event that Rio decides on a sale.

Mr Gannicott said the deal would give it the resources to focus on diamond mining, with further acquisitions possible.

“I don’t believe you can do everything well,” said Mr Gannicott, adding that running Harry Winston’s global store network had been a challenge, one that Swatch would be able to tackle more effectively.

Once the deal with Swatch, which is subject to regulatory approval, is completed, the Canadian group will rename itself Dominion Diamond Corporation.

Harry Winston was advised on the deal by Rothschild. Swatch had no adviser.

Shares in Swatch rose 4.2 per cent to SFr513 while Harry Winston shares had climbed 3.2 per cent to C$14.74 by midday in Toronto on Friday.