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Mountain Province Diamonds Inc. – (MPV:T) \$5.25; (MDM:A) US\$4.95

STOCK RATING: Outperform

TARGET: \$6.50

RISK RATING: Speculative

Tuzo Deep Expands Gahcho Kué Resource

Socio Economic Agreement Signed

- **Impact: Directionally Positive**
- **Tuzo deep drilling expands Gahcho Kué resource.** Following completion of the Tuzo Deep drill program in 2012, an updated resource estimate for Tuzo Deep has been released by Mineral Services Canada Inc. As a result, the project's indicated resource Increases 12% from 50.5 million carats to 56.6 million carats and the inferred resource Increases 80% from 10.3 million carats to 18.5 million carats. While this resource update highlights the exploration potential at Gahcho Kué, we continue to model the project with 49.4 mln carats to be conservative.
- **Socio Economic Agreement signed with the Government of the Northwest Territories.** The agreement formalizes commitments made with respect to employment, training, business opportunities and other related benefits for NWT residents. It also establishes measures to monitor possible socio-economic impacts related to the proposed mine and establishes the mechanism to work with communities close to the mine site to ensure an adaptive management approach to socio-economic performance of the mine.
- **Permitting process continues.** The environmental impact review concluded in December 2012, which should result in the final report and recommendation being released to the Minister of Aboriginal Affairs and Northern Development by the Mackenzie Valley Environmental Impact Review Board in July 2013. Upon receiving Ministerial approval on the EIR Report, the Project will be able to proceed through the final permitting phase where the terms and conditions of its permits and licenses will be determined.
- **Receipt of permits should allow for project re-rating.** With permitting approaching its conclusion and construction set to begin, we believe MPV's share could re-rate to reflect the strategic value of their 49% interest in Gahcho Kué. We believe the market will be willing to pay 15x CFPS once up and running or approximately \$12-15 per share. We currently assume an equity raise of 41.8 mln shares at \$4.50 per share for full construction financing in Q4 of this year, however the company could complete this in multiple tranches as near-term capital requirements are lower.
- **Catalysts to look for include:** 1) Additional permitting updates and 2) project financing
- **We maintain our Outperform rating and \$6.50 price target.** Our price target is derived based on NAVPS and CFPS methodologies. Specifically, we ascribe a 70% weight to 1.0x our NAVPS of \$4.16, and a 30% weight to 15.0x our 2017 CFPS of \$1.13 (discounted four years at 10%). Once in production we expect the market to value MPV using an average of 1.3x 5% NAVPS of \$6.87 and 15x 2017E CPFS to arrive at a projected target price of ~\$13.00.

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