

MPVDF Earnings Call Transcript

Date: 2025-11-12

Operator: Good morning, ladies and gentlemen, and welcome to the Mountain Province Diamonds Inc. Q3 2025 Webcast and Conference Call. [Operator Instructions] This call is being recorded on Wednesday, November 12, 2025. And I would now like to turn the conference over to Mark Wall, President and CEO.

Mark Wall: Thanks, Ina. Good day to everyone joining our Q3 2025 results call. I'm Mark Wall, President and CEO of Mountain Province Diamonds. Also present on this call is Steve Thomas, our CFO; and Reid Mackie, our Head of Diamond Sales and Marketing. At the conclusion of this presentation, we will be available for any questions that you may have. Firstly, I would draw your attention to our cautionary statement regarding forward-looking information. This presentation will be posted on our website for anyone who needs additional time to review this statement. Starting with safety. This quarter, our top priority has remained safety. I'm pleased to report that the total recordable injury frequency rate that we call TRIFR for the first 9 months of 2025 was 1.43, the lowest in the history of the mine, and this has dropped even further to 1.29 after the quarter has ended. Safety remains at the core of our operations, and this strong record is a testament to the team's commitment to a safe workplace. During Q3, our operational focus was on successfully stripping down to the much higher grade 5034 NEX ore body. NEX stands for Northeast Extension. As of now, we are consistently mining and processing this material, positioning us for improved production in Q4 and into 2026. Mining has gone well in 2025 with efforts to improve mining fleet equipment availability, underpinning improved mining performance. The 5034 NEX ore body is quite thin at the top and widens as we sink down. The lack of space was a constraint in equipment utilization during Q3. On processing, the maintenance team executed a 5-day plant shutdown in September to complete a long list of maintenance areas of the crushing and grinding circuit as well as the power generation system. This resulted in slightly fewer tonnes treated for the period. The average recovered grade was 1.18 carats per tonne, 5% lower than last year, impacted by a continued reliance on stockpiled lower grade ore in early quarter 3, but partially offset as we access the higher-grade 5034 NEX transitional zone. We expect to benefit from higher grades as more NEX material is processed in quarter 4. Cost control remains a focus with the expenditure for 2025 intended to be generally in line with the budget. The cash cost per tonne and per carat are higher than 2025 original guidance due to the lower grade material that was treated earlier in the year, resulting in lower carat production and the release of previously capitalized costs from stockpile processing. Year-to-date, the company remains reliant on the liquidity support provided by our major shareholder, Mr. Dermot Desmond, who remains a stalwart supporter of the company. During this period, we have experienced historically weak diamond prices. On that, the U.S. retail market continued to show strength, but diamond prices remain significantly constrained by the ongoing tariff situation between the U.S. and India. It is reported that the U.S. and India are nearing an agreement on tariffs, which may offer a tailwind to the current low diamond prices, but Reid will provide far more detail on that in a few moments. In summary, quarter 3 was a period of operational transition as the team completed important work exposing the higher-grade 5034 NEX ore body. We are now mining and processing that material, which is expected to drive a step change in results for Q4 and into 2026. The mine is well positioned with the shift to the NEX ore and operational improvements to continue to deliver. As always, our primary focus is on safety, operational discipline and cost management as we await stabilization and eventual improvement in market conditions. Thank you for listening, and I'll pass you over to Steve, who will take us through the financial results. Steve?

Steven Thomas: Thank you, Mark, and good morning, everyone. Noting that all numbers discussed will be in Canadian dollars unless otherwise stated. As for the first half of the year, the company has seen

low diamond prices during Q3, resulting in a very low revenue quarter impacting throughout the financial results. Also, sales in Q3 were fed by production drawn from the stockpile consisting primarily of Tuzo material treated in Q2. This explains the significantly lower diamonds recovered by the mid-year of 2025 compared to 2024, which limited the amount of goods available for sale. This outcome plays into industry-wide lower demand in the rough diamond market, itself driven largely by the uncertainty caused by the U.S. tariff regime, which is under review. As a result, quarterly revenue is the lowest since the mine opened with Q2 2025 being the second lowest. Expected amendments to the current tariff regime and our recommencement of mining ore in Q3 will significantly improve revenue earned going forward and result in financial performance. Continued lower market price has impacted Q3's reported cost of sales also as in Q3 2025, like the first 2 quarters, that required a write-down in the carrying value of diamond inventory, thereby increasing production costs. During Q3, treated ore continued to be sourced from the ore stockpile, but for the first time in 2025, the volume of tonnes of ore mined was similar to tonnes treated, resulting in only a small net depletion of the stockpile tonnes in Q3. However, over the first 9 months of the year, tonnes held in the ore stockpile reduced by 1.7 million tonnes, resulting in the release of previously capitalized costs. And that compares to the first 9 months of 2024 when tonnes in the stockpile grew by 1.1 million tonnes, resulting in capitalization of costs. The resultant loss from mine operations for Q3 2025 is CAD 29 million and CAD 103 million for the 9 months year-to-date, which compares to a loss in Q3 2024 of CAD 11 million and a profit of CAD 31.4 million for the first 9 months of 2024. In respect to foreign exchange, the U.S. dollar strengthened over the course of Q3, resulting in a material unrealized foreign exchange loss in the quarter. However, since the start of the year, the U.S. dollar has weakened, reflected in a material foreign exchange gain over the 9-month period, which is almost equal and opposite in value to the loss arising in the first 9 months of 2024. Adjusting for this and other impacts, adjusted EBITDA for the 3 and 9 months ending September 2025 is notably below the comparative 3 and 9-month periods in 2024, being negative CAD 4 million in Q3 2025 and marginally negative for the first 9 months of 2025, which compares to positive CAD 91 million for the first 9 months of 2024. Cash flow from operating activities was a CAD 3 million outflow for Q3 2025 and a CAD 31 million outflow for the first 9 months of 2025, which compares to a CAD 61 million inflow for the first 9 months of 2024. Q3 2025 also saw a further injection of USD 10 million from the bridge loan facility used to pay operating costs. And as a result, sees the Q3 closing working capital position at negative CAD 25 million compared to positive CAD 182 million at the end of Q3 2024. Turning briefly to the balance sheet. The CAD 3.2 million increase in the closing cash balance reflects a further injection of USD 10 million under the bridge credit facility and for the first 9 months, a total of USD 40 million, which is fully drawn on that loan. And in addition, CAD 33 million drawn through a working capital facility, both of which were made available by our related party, Dunebridge. These funds, along with temporarily utilizing CAD 20 million held in the restricted cash account enabled us to fund all operating and corporate costs through to the Q3 period end. The value of the derivative asset at CAD 1 million represents the fair value of the early repayment feature within the second lien notes and has changed minimally over the quarter, but decreased by CAD 4.9 million over the 9-month period, reflecting the increase in the discount factor used to derive its fair value. Inventories at CAD 154 million have decreased by CAD 13 million over the quarter as the supplies delivered on the winter road are drawn down. For the first 9 months of the year, the reduction in value by CAD 42 million is due primarily to a CAD 55 million reduction in the value of the ore stockpile for which the tonnes have reduced by 1.7 million. As mentioned earlier, during Q3, all mining commenced with 807,000 tonnes mined being very close to the 847,000 tonnes treated, resulting in the ore stockpile tonnes at Q3 end at 2.34 million tonnes being very close to the opening tonnes. Lastly, for inventory, although Q3 -- during Q3, there has been an 82,000 carat increase in the volume of rough diamonds held in inventory, the value has only increased by CAD 1.1 million to CAD 17.5 million as the value per carat has reduced to CAD 48 per carat from CAD 58 per carat at the end of Q2. This reduced value reflects the noncash write-down of CAD 15 million in the quarter to reflect the net realizable value compared to costs. Since the start of the year, when the value per carat was CAD 72, we have booked CAD 43 million in write-down charges, reflecting the deteriorating selling price experience. For property, plant and equipment, the Q3 2025 balance at CAD 630 million is up CAD 5 million over the quarter and CAD 42.5 million above the 2024 year-end balance, reflecting a CAD 14 million balance invested in sustaining

capital and an additional CAD 61 million of capitalized waste activity in respect of NEX waste material, less the depreciation incurred since the start of the year. For current liabilities, the accounts payable balance at CAD 89 million includes CAD 19 million of accrued interest on the senior secured notes, which the lenders agreed to forego until settlement in June 2026. This was previously paid every 6 months, so would not figure in the comparable AP balance at June 2024 or 2024 year-end. The USD 40 million bridge credit facility was fully drawn in July and the balance reflects the principal unamortized deferred transaction costs and accrued interest translated at the closing FX rate. Similarly, the working capital facility of CAD 33 million was fully drawn during Q2 and is accounted for as per the bridge credit facility as a short-term liability accruing interest under it until it is settled. The fair value of the USD 20 million U.S. currency hedges in place is reported as a derivative liability due to the strengthening of the U.S. dollar over the quarter and the resulting forecast forward FX curve, which exceeds the average settlement rate of CAD 1.38 to the U.S. The fair value of the current and long-term components of the decommissioning and restoration liability has seen little movement over the 3 and 9-month period with the risk-free interest rate used in the fair value calculation at 3.2% being very close to the year-end figure. The resulting change in the value of net current assets and current liabilities during the 3 and 9 months ending Q3 '25 results in the working capital position decreasing by CAD 30 million during the quarter. And although it is CAD 95 million greater than at 2024 year-end, if that '24 balance was normalized for the reclassification of the second lien notes from short to long-term debt, it would equate to a reduction in working capital of CAD 165 million, half of which reflects the injection of CAD 88 million of short-term debt for which the cash has been used to meet operational needs. In respect of the long-term liabilities of the U.S. dollar-denominated senior secured notes and junior credit facility, the strengthening of the U.S. dollar compared to CAD over the quarter increased the comparative Canadian dollar reported values, and that is reflected in the unrealized foreign exchange gain of CAD 10.2 million in Q3. Conversely, the relative weakening -- sorry, that was a CAD 10.2 million loss in Q3. Conversely, the relative weakening of the U.S. dollar over the 9-month period has tended to lower the Canadian denominated value and resulted in a foreign exchange gain of CAD 11.4 million since the start of the year. To note also that whereas the junior credit facility balance is stated inclusive of accruing interest for the senior secured notes, that accrued interest is reported as part of the current accounts payable liabilities, as I mentioned earlier. Turning now to earnings plus. As per my opening remarks, revenue earned in the 3 and 9 months up to Q3 2025 was far lower than the comparative 2024 period. For the first 9 months of 2025, volume of goods sold are 43% down compared to 2024, reflecting the source of ore treated coming from the ore stockpile and average price sold is 14% down. For Q3 2025, at an average selling price of USD 52 per carat compared to USD 75 per carat in Q3 2024, this is the lowest price in a quarter since Q2 2025 and prior to that since Q3 2021 when the market was closed due to COVID. And as Mark mentioned, Reid will provide a more in-depth view of current market conditions shortly. Cost of sales at CAD 58.1 million in Q3 2025 compared to CAD 80.4 million in Q3 2024. However, if that balance is normalized for the amount of carats sold, the Q3 2025 figure would be comparatively CAD 16 million higher, of which CAD 5 million is attributable to the comparatively higher non-cash charge to write down inventory to its net realizable value. Cost of sales for the 9 months ending Q3 at CAD 214 million compared to CAD 184 million for the 9 months ending Q3 2024, which again, if normalized for carats sold, would be approximately 2x higher. This significant comparative increase reflects the CAD 27 million higher write-down charges against rough diamond inventory in 2025 compared to 2024 and because in the first 9 months of 2024 the ore stockpile grew by 1.1 million tonnes, whereas in 2025, it shrank by 1.7 million tonnes, resulting in the release of a significant proportion of costs previously capitalized. The cash cost of production, excluding capitalized stripping for the 9 months ending Q3 '25 at CAD 99 per carat and CAD 93 per tonne of ore are markedly above the comparative figures of CAD 56 per carat and CAD 77 per tonne of ore treated for Q3 2024. As for cost of sales, this is largely due to the aforementioned significant depletion in the ore stockpile tonnes in the first 9 months of 2025 compared to the growth in 2024. Also, as I noted in the Q2 earnings presentation, this is due also to the respective average value per carat of opening and closing inventory, which feeds into production costs having gone up in 2025 compared to 2024. The differences in comparative costs on a per tonne and per carat basis widen when including capitalized stripping as capitalized stripping costs incurred in the first 9 months of 2025 were CAD 35 million higher

than in 2024. As a result of the lower carat recovery and the cost effects outlined above, we have reguidered the full year production cost per tonne and per carat as disclosed in our production press release on November 6 and in the Q3 MD&A.; Finance expenses for the 3 and 9 months ending Q3 2025 are CAD 15 million and CAD 40 million, respectively, and as expected, above the 2024 comparable periods at CAD 11 million and CAD 32 million. This reflects the increase in the interest charge in respect of the junior credit facility as that accrued interest adds to the principal outstanding and also the inclusion of interest and deferred charges associated with the new working capital facility and the bridge loan facility, which increased in size during Q3 2025. In respect to foreign exchange movements in Q3 2025 and the 9 months year-to-date, I've discussed the unrealized foreign exchange impacts arising on translation of the U.S. dollar-denominated debt. But in addition, there was a realized foreign exchange loss of CAD 4 million incurred on the settlement of U.S. dollar hedges at rates below the prevailing spot rate. Deferred income tax recovery of CAD 2.9 million in Q3 2025 and CAD 14 million for the first 9 months of 2025 compared to a deferred income tax charge of CAD 1.3 million for the first 9 months of 2024 reflects the reduction in the deferred tax liability due to the scale of the operating losses arising in 2025. The above results in loss from operations for Q3 2025 of CAD 29 million compared to a loss of CAD 11 million in Q3 2024. And for the first 9 months of 2025, a loss of CAD 104 million compared to a gain of CAD 32 million for the comparative 9-month period in 2024. Selling, general and admin expenses for the 3 and 9 months ending Q3 2025 continue to reduce in the year and are significantly below the comparative periods in 2024, driven by continued cost control efforts. Cash flows provided by operating activities, including changes in non-cash working capital for the first 9 months of 2025 saw an outflow of CAD 31 million compared to an inflow of CAD 61 million in the first 9 months of 2024. The injection of CAD 89 million via related party debt supports the closing cash balance of CAD 4.9 million for Q3 2025 compared to the opening balance of CAD 1.7 million. Per the analysis in the MD&A.;, adjusted EBITDA for the 3 and 9 months ending Q3 2025 was minus CAD 4.3 million and minus CAD 0.4 million, respectively, with a year-to-date margin of 0% versus CAD 91.3 million and a margin of 42% for the first 9 months of 2024. Overall, a net loss after tax for Q3 2025 of CAD 56 million and CAD 128 million for the first 9 months of the year compares to a loss of CAD 19 million for Q3 2024 and a loss of CAD 19 million for the first 9 months of 2024 with the difference largely due to the significantly lower sales volume and price and also the release of previously capitalized production costs as tonnes in the ore stockpile reduced. For Q3 2025, the loss per share was CAD 0.26 and for the first 9 months of the year, a loss of CAD 0.60 compared to a loss of CAD 0.09 for Q3 2024 and equally CAD 0.09 for the first 9 months of 2024. In conclusion, Q3 2025 has seen a continued challenging market with constrained price compounding the reduced production volumes available for sale whilst we mine through NEX waste material. During 2025, the ability of the company to meet ongoing operational costs has been made possible by the significant financial support provided by our major shareholder, Mr. Desmond. These financial results are despite the mine performing beyond historical records. And now that we are mining the richer NEX ore body, this will drive a significant improvement in revenue, our overall financial results and our ability to pay down debt. Thank you for listening. And with that, I will turn the presentation over to Reid. Reid?

Reid Mackie: Thanks, Steve. Indeed, it's been a difficult quarter. Overall, the diamond market sentiment remains cautious, driven by the evolving U.S. tariff landscape as well as the uncertainty around the pending sale of De Beers. All eyes are now on the upcoming holiday season to improve upstream demand and boost pricing. Throughout Q3, producers continue to gradually draw down inventories and manage supply to support pricing. Purchasing flexibility at producer rough sales remains common with some continuing to strategically withhold goods to protect pricing and balance tariff-related pressures. Both rough and polished prices declined in Q3, although larger sizes have stabilized in some categories. In recent months, the U.S.-India diamond tariff dispute intensified, triggering strategic shifts across the industry. The U.S. doubled its tariff on Indian diamond imports to 50%, prompting a sharp drop in exports and forcing Indian traders to pivot where possible towards high-margin jewelry and alternative markets like the UAE. And manufacturers explored offshoring production in other jurisdictions. While the EU secured zero tariff access for locally polished goods, countries like Botswana and India continue to seek similar arrangements. In early September, the U.S. added diamonds to a list of potential exemptions for countries with trade agreements. U.S. consumer demand

remained steady ahead of the holiday season despite macroeconomic headwinds. The National Retail Foundation forecasts 2025 U.S. holiday sales to be the second highest in its history. Hong Kong's luxury retail showed signs of further recovery in Q3, while the Chinese luxury market is beginning to show signs of a rebound. India's domestic market continues to be strong with holiday demand driving down growth in diamond -- driving growth in diamond jewelry sales there and natural diamonds still dominate the Indian market with lab-grown making up just 2%. Retailers are leaning into consumer assurances around natural versus lab-grown products with some training staff to highlight natural diamond attributes, the widening gap and GIA's updated grading terminology are further differentiating between natural and lab-grown stones at the consumer level. Heading into Q4, the industry is looking ahead to the upcoming holiday season, cautiously optimistic that strong retail performance will support upstream demand and price growth. Tariff developments, especially those affecting India, remain a key focus as the industry seeks to continue to see more market predictability and signs of recovery. Long term, we feel the outlook for natural diamonds, especially those with verifiable origin stories, remains positive. And with that, I pass you back to Mark for closing remarks.

Mark Wall: Thanks, Reid. So at the end of Q3 2025, we've continued to focus on safety performance and achieved the lowest TRIFR so far at the operations. We've continued to waste strip to the high-grade 5034 NEX ore body, which we have now fully accessed. We've executed a 5-day shutdown on the processing and power facilities to set the plant up for the winter months. We look forward to some stabilization in the market to be able to leverage our higher production from Q4 through 2026. Thanks for your time, and the team is now available for any questions that you may have.

Operator: [Operator Instructions]

Mark Wall: Steve, is there anything on the chat?

Steven Thomas: No, not at this time, Mark.

Mark Wall: Okay. You have nothing, Ina?

Operator: [Operator Instructions] No questions at this time. I will now hand the call back to Mr. Mark Wall for any closing remarks.

Mark Wall: Thanks, Ina. Thanks, everyone, for dialing in. Thanks, Steve. Thanks, Reid.

Steven Thomas: Thank you.

Operator: And this concludes today's call. Thank you for participating. You may all disconnect.