



2009 Report to Society Canada

Living up to diamonds

The Second Step



In this Report to Society

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De Beers at a glance

De Beers was established in 1888 and is the world's leading diamond company with unrivalled expertise in the exploration, mining and marketing of diamonds.

De Beers Canada

Mining

1.14m
Carats recovered 2009

Financials

\$311m
Revenue generated

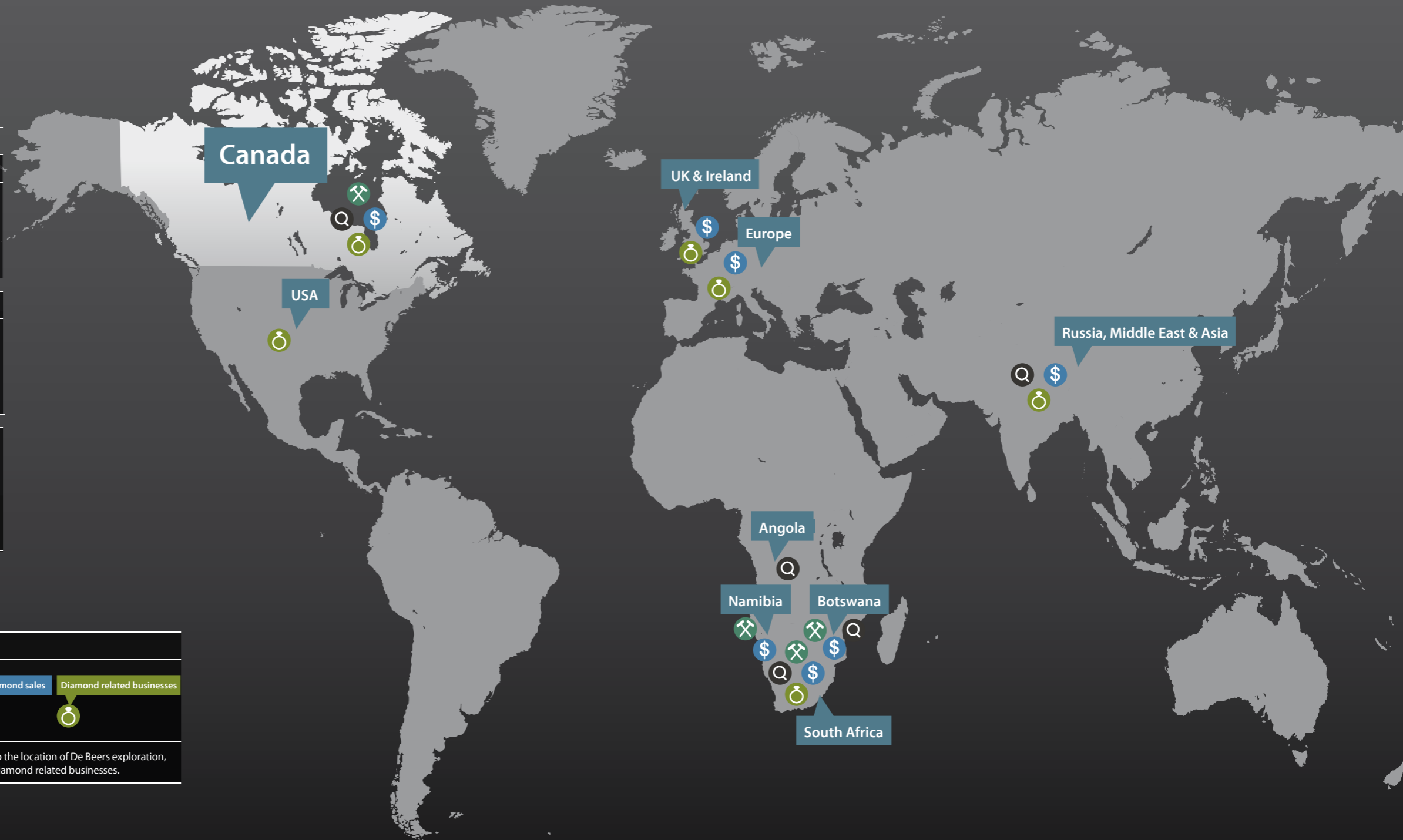
Rough Diamond Sales

\$15.5m
of diamonds by value supplied to local industry for beneficiation

Key

Exploration	Mining	Rough diamond sales	Diamond related businesses
🔍	⚒️	💰	💎

This map is an approximate guide to the location of De Beers exploration, mining, rough diamond sales and diamond related businesses.



Foreword from the Chief Executive Officer



Jim Gowans
President & CEO, De Beers Canada Inc.

“ [W]e were able to meet all of our commitments to our community partners regarding the direct benefits outlined in each agreement, and De Beers Canada has remained on course towards sustainable development. ”

Welcome to the 2009 De Beers Canada Report to Society, our second comprehensive assessment of our work in the area of corporate social responsibility and community engagement.

2009 was a challenging year for most industries and the diamond industry was no exception. The global recession led to a swift and unexpected reduction in demand for our product in the first half of the year. This stabilized in the third quarter and showed signs of recovery in the final quarter.

Throughout the year, our employees, community and business partners responded effectively to the challenges we faced collectively. At times, tough decisions had to be made to ensure the company would weather the economic storm and there were unfortunate impacts on a number of employees and partners – through no fault of their own. I wish to acknowledge their contributions to De Beers Canada and was pleased to see many of the relationships renewed by year end as we focused on revised production plans for 2010 and beyond.

I am also very proud that in 2009 De Beers Canada completed the final Impact Benefit Agreement (IBA) for our current operations, with the successful ratification of an agreement signed jointly by Kashechewan First Nation and Fort Albany First Nation. De Beers Canada now has seven IBAs covering eight Aboriginal communities located close to our Snap Lake and Victor mines. In addition, we have several working and exploration agreements in other areas.

Despite the difficult year, we were able to meet all of our commitments to our community partners regarding the direct benefits outlined in each agreement, and De Beers Canada has remained on course towards sustainable development. We have continued to focus on training and education within the communities with which we work, and on the development of business opportunities. These will help the communities develop strengths that will serve them long after our mines have closed. In parallel with this, environmental management plans have helped to reduce negative impacts



Jim Gowans, De Beers Canada President & CEO, is interviewed at the announcement of Ontario's first cutting and polishing facility. De Beers Canada has committed to provide up to 10 per cent, by value, of the production from the Snap Lake and Victor mines to the secondary industry in Canada.

by cutting pollution, increasing recycling and reuse, and by working to become more energy efficient. This reduces both costs and greenhouse gas emissions.

There have been many lessons in the past year. Some were reminders about sound business fundamentals, while others were experienced for the first time. To have such a drastic economic event occur in just the second year of operations was quite a shock, but I believe it made De Beers Canada, our employees, our community and business partners even stronger.

Thank you for taking the time to learn more about De Beers Canada. I hope the 2009 Report to Stakeholders will provide you with a better understanding of our purpose, vision and values.

Performance Overview by the Chief Operating Officer



Chantal Lavoie
Chief Operating Officer,
De Beers Canada Inc.

We had long planned that 2009 would be the first year of consistent, steady-state production at both our Snap Lake Mine in the Northwest Territories and the Victor Mine in northern Ontario. In reality, the only consistent thing in 2009 was the constant change.

Our operations entered the year adjusting to the economic free-fall that had begun in the last quarter of 2008. Both mines had to immediately revise mining plans to meet reforecast targets, which continued to fluctuate throughout the first half of the year. There were also eight-week production breaks and temporary shutdowns at each mine to reduce costs and align production with demand.

By year-end, the team at the open pit Victor Mine had used their summer production break to complete critical maintenance in the processing plant and stripping of the pit, and managed to exceed their revised production forecast by more than 9,000 carats. The Victor team and contract partners also finished the year with 540,000 hours without a Lost Time Injury (LTI).

De Beers Canada Exploration focused on previously identified targets at the Victor Mine in 2009, taking both core and bulk samples of diamond-bearing pipes that could extend the life of the mine. Assessment of those samples continued through to the end of the year. The Exploration team also maintained their excellent safety record, and by December 2009 had achieved 49 months without an LTI.

At our underground Snap Lake Mine, very difficult decisions were made in early 2009 that saw significant staff and contractor reductions. Production was scaled back to just one shift and a six-week summer shutdown took place. The Snap Lake team focused on balancing their new production target with advancing ore and waste development. Excellent progress was made on both fronts and a second shutdown scheduled for December was cancelled as the team positioned itself to ramp back up to full production beginning in 2010. Snap Lake finished the year with 810,000 hours without an LTI.

This was a significant year too for our major project – Gahcho Kué – as we renegotiated our joint venture agreement with our partner Mountain Province Diamonds. A revised mineral resource estimate was released in May, followed by the start of a formal feasibility study in September. A decision on the future of the project will be made once the study is completed by the end of August 2010.

In line with our objective of building lasting capacity in the communities in which we operate, we continued to invest in local programs that focused on business opportunities, education, training and employment. These are the key areas identified by our community partners, and are also areas where we think the company can make a difference. We are also committed to continual improvement in our occupational health, safety and environmental protection programs, and are tying all these activities together under the Mining Association of Canada's "Towards Sustainable Mining" initiative. This measures our progress in external relations, crisis management, tailings management, energy use and greenhouse gas emissions. Self-assessment began in 2009 and public reporting will begin in 2010.

We look forward to working with our community and business partners as we continue to grow De Beers Canada.

“ In line with our objective of building lasting capacity in the communities in which we operate, we continued to invest in local programs that focused on business opportunities, education, training and employment. ”



⦿ Rough diamonds.

Financial Overview by the Chief Financial Officer



Steve Thomas
Chief Financial Officer,
De Beers Canada Inc.

2009 was exceptionally challenging financially for the global economy, the diamond industry and in turn De Beers Canada. The decisive stand taken by the De Beers Family of Companies in late 2008 and throughout 2009 ensured both the financial survival of the Company and the long term value of De Beers Group. Those decisive steps meant taking hard decisions in Canada. In a concerted effort to contain operating costs, we determined it was necessary to reduce carat production which significantly lowered our revenue. This reduction in top line sales explains the sizeable net cash outflow for our business unit and reported net loss. That said, we still generated Cdn\$311 million of turnover, selling over 1.2 million carats.

The long term operating and financial fundamentals of De Beers Canada were not undermined as a result of the events of 2009, but there were two consequences. The first was to emphasize the need for our continued diligence in controlling costs. To this end, 2009 saw the continued development of the systems and the processes required across the company to improve cost control. This will continue to be a major determinant of our success going forward.

The second consequence of the economic malaise of 2009 was the impact on the long term planning indices applicable to the Life of Mine financial models, specifically the current price book for rough diamonds, future price increases, foreign exchange rates, financing

costs and discount rates. The combination of these restatements resulted in an impairment charge of Cdn\$565 million being levied against the Canadian assets. This significantly reduced the stated operating profit for 2009 by effectively bringing forward the depreciation charge which would have normally applied to future years in the model.

The joint production cost of our Snap Lake and Victor mines for 2009 at \$264 million includes Cdn\$98.5 million being spent with First Nation based contracts and Cdn\$32.6 million of taxes being remitted to the Federal, Provincial and Territorial governments. Capital investment in our mining infrastructures at Cdn\$55.9 million reflects stay-in-business capital as well as investment in the Snap Lake accommodation complex targeted for completion in 2010.

Spend on our Gahcho Kué Project was carefully controlled in 2009, reflecting a limited operational program. The relationship with Mountain Province, our joint venture partner, moved forward in 2009 under a revised joint venture agreement, which is seen by both parties as a significant benefit.

We put behind us a once in a generation global recession and although we are not out of the woods moving into 2010, we face the future with confidence based on the proven resilience and agility successfully demonstrated by the De Beers Canada team during 2009.

“ [W]e face the future with confidence based on our proven resilience and agility demonstrated successfully during 2009. ”



The Year at a Glance

Business plans remain flexible to respond rapidly to changes in the market over the coming year.

This was a tumultuous year due to the economic turmoil that began in late 2008. The worldwide economy struggled throughout the year before showing signs of gradual improvement late in the third quarter and into the fourth quarter. The Victor Mine was shut down for two weeks over the 2008-2009 Christmas and New Year period, and had a six week summer production break. The Snap Lake Mine had a six-week summer shutdown. Overall production levels in 2009 were also reduced to respond to client demand, with Victor Mine pulling back below full production and Snap Lake Mine reduced to a single shift for much of the year. On the exploration side, work focused on previously identified targets at the Victor Mine as potential future resources.

Throughout the year, all staff worked continually to identify additional ways to contain spending

and increase efficiencies without increasing costs. Work centred on actively searching for methods of shortening project development timelines, focussing exploration efforts, examining acquisition, divestment and joint venture strategies, and building a strong group of sustainable projects. Despite the economic slowdown, staff reductions and shutdowns, both the Snap Lake and Victor mines met their commitments to community, business and government partners throughout the year.

A management roundtable was held at the beginning of November to clarify strategy for 2010 and beyond, as the global economy continues to recover. Both optimism and caution are being exercised to ensure business plans remain flexible to respond rapidly to changes in the market over the coming year.

De Beers Canada received several notable awards during 2009. The Victor Mine was named "Mine of the Year" by the international trade publication Mining Magazine, while Snap Lake Mine was awarded the "Minister's Award for Literacy" in the Northwest Territories. Our NWT Projects Human Resources Manager, Kelly Arychuk, was honored with the Premier's Award for work with the Mine Training Society.



2010 Outlook

With the measures taken in 2008 and 2009, De Beers Canada is well positioned for a recovery in the diamond market. One of the largest challenges will be overcoming the on-going strength of the Canadian dollar against the US dollar. Working costs are in Canadian dollars while sales are in US dollars. The strong Canadian dollar has effectively reduced earnings by over 20% and everyone will have to be focused on innovation and cost containment in the months ahead to ensure that operations remain viable. Conservation of cash remains a priority: production will continue to be geared to meet client demand and to generate sufficient income to service interest and debt payments. Similar to 2009, revisions to the work plans will be made as required during the year to maintain these business goals.



⦿ Ore proceeds along the conveyor in the Process Plant at Snap Lake Mine.



⦿ Crushed kimberlite at Victor Mine: primary stockpile

About this Report

This report is laid out with sections addressing economics, employees, communities and operations at the two mines, exploration, the environment, procurement, product responsibility and assurance.

This is the second complete Report to Society for the whole of De Beers Canada. There have been earlier socio-economic reports for Snap Lake between 2005 and 2008, and Environmental Reports for Snap Lake for each year between 2005 and 2008 (the 2009 version will be released by the end of June 2010). The Snap Lake Reports were produced in compliance with the regulatory requirements for the Snap Lake Mine. Similar reports on the environment were issued for Victor for the construction period (2006-2007) and for the first year of operations (2008), while the report for 2009 is scheduled for release by the end of June 2010.

In the future, the statutory reports will continue to be produced, and will be linked by hyperlinks to the web-based version of this report. The reporting period for most of the statutory reports, however, is not a calendar year, but the period defined in the regulatory instrument. This report covers the period January 1, 2009 to December 31, 2009 in line with the intention for these reports to cover a calendar year.

Lessons learned from the first report showed that there was insufficient detail in some areas and too much in others where additional information could be placed on the company website. This report has been prepared with these shortcomings in mind.

This report is laid out with sections addressing economics, employees, communities and operations at the two mines, exploration, the environment, procurement, product responsibility and assurance. For each of these areas, subheadings are used to highlight the various sections. This report provides a high level summary of De Beers Canada's activities in Canada. It is also available on the De Beers Canada website at www.debeerscanada.com. The web-based version is linked to additional information that is hosted on the De Beers Canada website. This printed version also contains the relevant web links.

The priorities for communities indicated within this report flow from comments heard at meetings with the various communities during the period. A more

formal methodology to capture feedback and information from these communities is planned, and should be in place during 2010. While our impact and benefit agreements define minimum numbers for meetings with the communities, it has been found useful to hold meetings on a more regular basis where this can be arranged. Most of the information in this report summarises data that communities have requested.

In line with the De Beers Family of Companies, greater emphasis is placed on risks and risk assessment in this year's report. Other areas of focus include climate change, water and impacts on communities and their feedback.

Material for inclusion in this report was selected on the basis of requirements for both the Global Reporting Initiative (GRI) and the draft ISO 26000 guidance document. There have been no changes from measurement methods used in 2008 and there are no re-statements of information from earlier reports.

Joint ventures are reported upon and statistics are included where De Beers Canada is the operator. Where De Beers Canada is not the operator, or where it is a minority partner, statistics are not included. Statistics are also not included where De Beers Canada has an un-exercised option or retains a gross overriding royalty in a former property that has not reached the feasibility stage of development. Currently there nine such properties and these are considered to have a possible but currently un-quantifiable potential.

This report is in general conformance with the GRI and the draft ISO 26000 requirements (Working draft 4.2). A GRI and ISO 26000 compliance table is attached as Appendix C.

De Beers Canada uses the Brundtland definition for sustainable development, namely "ensuring that activities today meet the needs of the present without compromising the ability of future generations to meet their own needs". Following discussions with our communities of interest, six areas of common priority have been identified as significant. Three areas are (i) business opportunities, (ii) training and education, and (iii) employment.

De Beers Canada

2009 production statistics (000s)		
	Tonnes treated	Carats recovered
1 Snap Lake	354	444
2 Victor	2,112	696

100% owned
Established 1998

Indepth information on topics covered in this report is available on our website at www.debeerscanada.com

These are in addition to (iv) economic growth, and (v) protection of the environment, and (vi) health and safety of the communities and their members. Taken together, these form the building blocks for sustainable communities that would have the wherewithal to continue to develop and thrive after our activities have ceased, and to benefit the future generations of community members.

Data is measured through a variety of methods. Employee and contractor numbers are collected by the Human Resources department, and reflect actual numbers. Economic numbers for the financial section are from the corporate accounts and records, and are rounded. Materials consumed are from direct readings, and volumes and tonnes mined and processed are from survey calculations and direct tonnage measurements from weigh meters. The latter are reconciled with the materials mined. Information for communities is taken from notes and minutes of meetings, and from correspondence with stakeholders.

Performance indicators			
	09	08	variance
LTIFR*	0.27	0.25	0.07
LTISR**	31	8.95	9.05
Mining licence area (ha)***	7,236	7,236	0
Tonnes treated (000s)	2,466	2,690	-7%
Carats recovered (000s)	1,140	1,640	-31%

* Lost time injury frequency rate
** Lost time injury severity rate
*** Hectares

Production start	
Mining (underground)	
1 Snap Lake	2007
Mining (open pit)	
2 Victor	2008