

# Economics

## Economics

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De Beers Canada contributes through its two mines (Snap Lake and Victor) to the economics of the De Beers Family of Companies and to the socio-economic wellbeing of Canada, particularly in Ontario and NWT where our mines are located. The severe economic downturn at the end of 2008 persisted through much of 2009 and there was a significant reduction in the demand for diamonds in comparison to the previous year. Production was curtailed to match this reduced demand and many steps were taken to reduce costs and conserve cash to ensure that the company emerged from the downturn in good shape.

Table 2-1 shows the economic goals for 2009, and summarizes the main successes and shortcomings. The major risks and opportunities for the company are summarised in Table 2-2. The economic goals were revised during the year to adapt to the changing economic circumstances. Note that all financial figures are rounded to the nearest thousand dollars, and all amounts are in Canadian dollars, unless noted otherwise.

Ⓞ The winter roads that connect our remote mines to the communities and permanent infrastructure are key to our success.

Table 2-1 Economic goals, successes and shortcomings

Economic goal	Degree to which achieved	Successes	Shortcomings	Additional remarks
Sustain an appropriate level of Exploration activity to develop brown field and green field opportunities.	Work carried out on existing operations and limited scope of advanced exploration work elsewhere.	Continue to refine resources. Kimberlites continued to be discovered. Resource development continues to advance in brown fields. 48 months without an LTI.	Access to land in Ontario remains difficult because of First Nations' concerns. Revised land use planning or or concerns revised by local First Nations.	Canada continues to attract diamond exploration and remains a competitive environment.
Formulate a forward looking strategy for the Gahcho Kué Project in conjunction with our JV partner.	Successful renegotiation of JV agreement in July 2009.	Agreement reached on the execution of pre-feasibility study to take place during 2010.		Result of feasibility study expected in late 2010.
Optimize ramp up towards full production and reduce operating costs at Snap Lake Mine.	Ramp up delayed in 2009 to match production to demand for rough product. Development of full ramp up plan through 2010 to 2012.	Throughout the period of significant change, safety has been a priority.	Although we are confident of our ability to ramp back up, the NWT remains a competitive employment environment.	Carat production to be increased by over 100 per cent in 2010 over 2009.
Optimize production and reduce operating costs at Victor Mine.	The refined production and financial targets were met.	Victor success in financial, social and safety performance was recognized in its award as 'Mine of the Year' by Mining Magazine.		Carat production to be increased by 5 per cent in 2010 over 2009.

“At De Beers Canada, over 2 million tonnes of ore was processed, recovering about 1.4 million carats in 2009.”

At Snap Lake Mine, 354,500 tonnes were processed recovering 440,000 carats for a recovered grade of 125 cpht. The mineral resource performance has improved and a discount factor is no longer applied to expected recoveries. 491,000 carats were sold to the DTC resulting in revenue of \$72.7 million, which was 4 per cent below forecast. Of this difference, 3 per cent reflects a drop in price. The mine produced 354,500 tonnes at 39 per cent dilution versus a plan of 342,400 tonnes at 35 per cent dilution. The difference between processed tonnage and mined was made up from stockpiled ore on surface.

At Victor Mine, 2,111,900 tonnes were processed recovering 696,000 carats for a recovered grade of 33 cpht. The mineral resource performance has improved and a discount factor is no longer applied to expected recoveries. Diamond sales to DTC resulted in revenue of \$243.7 million, which was 1 per cent below forecast. The mine produced 2,046,900 tonnes of ore at less than 1 per cent dilution versus a plan of 2,617,300 tonnes at less than 1 per cent dilution. The difference between the tonnage processed and the tonnage mined consists of 64,900 tonnes. This difference between processed tonnage and mined was made up by using stockpiled ore and by including material which was not in the mineral reserve.

Table 2-2 Major risks and opportunities for De Beers Canada

	Risk	Opportunity
Snap Lake Mine	Total dissolved solids (TDS) level exceeds water licence parameters	Close monitoring of TDS and complete hydrological studies to better understand changes in TDS levels and identify better methods to reduce TDS level in effluents
Snap Lake Mine and Victor Mine	Limited access to or no winter road (i.e. poor weather)	Increase stocks of consumable materials at site including fuel, pursue opportunities to reduce consumption of consumables
Victor Mine	Civil disobedience / unrest closing winter road to site or interrupting power supply	Increased community engagement and more effective communications

### Risk

The entire corporate environment is subject to a rigorous risk assessment process. This assesses the internal and external factors that could undermine the company's ability to meet its strategic objectives; and these fall under the broad headings of value growth, reputation protection and being a centre of excellence.

Specific attention is directed towards the security of the diamonds themselves and an holistic assessment is undertaken separately for the high risk areas of the mines. This includes particular consideration of the controls required to mitigate against potential corruption.

In respect of the physical sections of the operations and ancillary offices that are considered less risky from a product security perspective, these areas will be the subject of a more detailed risk assessment during 2010. The risk of corruption is included within the general assessment of risk within the lower risk areas of the mines and in the offices. These lower risk areas will be the subject of a more detailed risk assessment during 2010.

In order to manage risks effectively, each department at each mine, the corporate office and Exploration division, undertakes a detailed risk assessment using a common methodology. The risks are initially assessed and ranked with a matrix to provide an "inherent risk". The "inherent risk" is the original risk before any controls or mitigation steps. The risk assessment is then adjusted after consideration of existing risk management strategies and controls to reach a "residual risk". This residual risk in turn is then considered, and additional mitigating strategies and controls provide improvements through consideration of what could be done, by whom and when. The outcome of this third step is a "remaining risk". The remaining risk is what is left over after all the controls and mitigation steps that can be usefully employed have been employed, and it is this that is used as the basis of the final risk assessment. Revisions of the risk assessment are undertaken at least every six months, and usually every quarter where risks are significant.

At Snap Lake, work is continuing to find more effective ways to reduce the total dissolved solids content of effluent, with several initiatives currently underway. Mitigation efforts on the risks associated with the winter road access, are focused on ways to reduce the dependency on fuel and other consumables. Most consumables are difficult to reduce, but we are studying ways to use wind power to reduce the fuel required for power at site.

Climate change is identified as a significant risk for both the Snap Lake and Victor mines because they are serviced by seasonal winter roads that are dependent upon temperatures being low enough to permit ice-road construction.

If the climate is too warm for winter road construction, or the winter road season becomes too short, the alternatives are:

- (i) to build permanent roads which would be cost-prohibitive,
- (ii) to move all consumable spares and equipment by air, or
- (iii) to build a road less frequently in those years that are cold enough.

The cost implications of the second and third alternatives are being monitored.

The airstrip at Victor will be completed to accommodate large transport aircraft in case the need arises. However, some equipment is too large to be moved by air, and alternatives are being considered. Supply by air is roughly twice the cost of supply by road, and the second alternative would also not address the issue of how to supply the sites if there are warm winters for several years running.

# Economics Continued

Table 2-3 Expenditure on goods and services, 2009

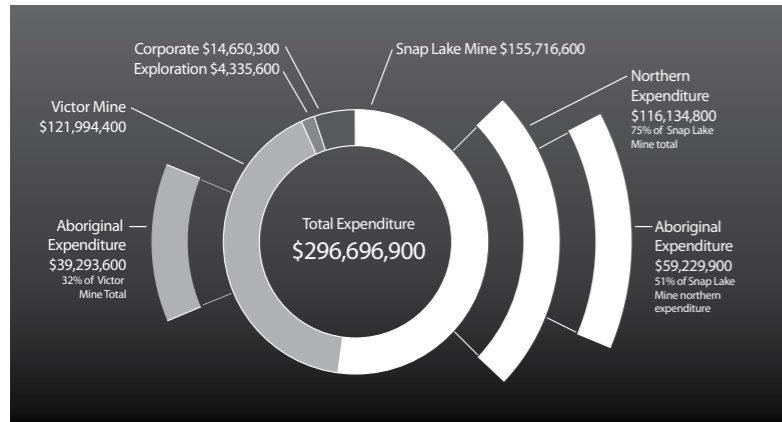
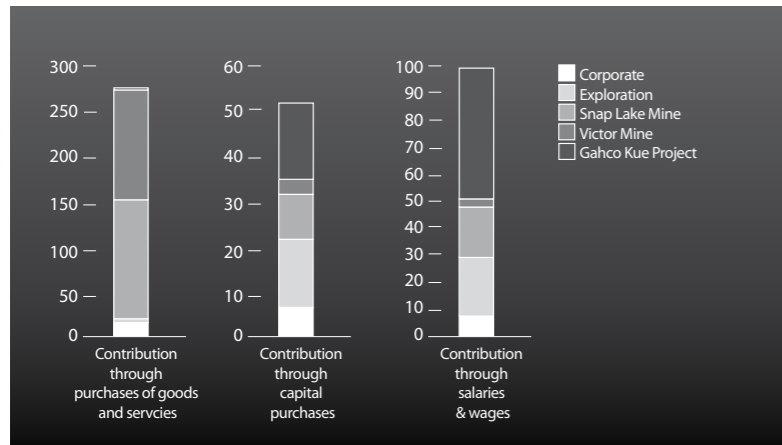


Table 2-4 Total contribution to the economy in 2009. Carat production to be increased by over 100 per cent in 2010 over 2009.



Total payroll and benefits, including wages, pension and other benefits, and redundancy payments consisted of \$14,903,050 for the corporate and Exploration divisions, \$43,225,075 for Snap Lake and \$37,599,835 for Victor, making a total of \$95,727,960 for Canada. In addition, there were redundancy payments of \$1,575,441 during 2009.

Out of the 751 employees only 39 are within a defined benefit plan and this is not material for this report. The decision was taken during the year to freeze the defined benefit plan as of December 2010, with employees becoming members of a defined contribution plan beginning January 2011.

No corporate, federal, provincial taxes or government royalties other than personal income taxes were paid in 2009 as the company was in a loss position for tax purposes. In future years there are accumulated tax allowances from

exploration, development and construction phases that will reduce tax payments. A total of \$27,897,170 was paid in federal and provincial income taxes on the payroll, Canada Pension Plan contributions and employment insurance. Property taxes (including land use payments) totalled \$4,717,487 during the period. No federal, provincial or territorial subsidies were received during the year. Table 2-4 shows the contribution to date to the economy.

### Financial Summary

Diamond production during the period was 1,140,000 carats made up of 444,000 carats from Snap Lake, and 696,000 carats from Victor. Total net receipts from the sale of 1,191,000 carats to the Diamond Trading Company were US\$276,005,000. The difference between the carats produced and the carats sold represents the diamond inventory on hand at the end of 2008 after the last sale for 2008.

Indirect economic impacts to the economy in general have been estimated by the Mining Association of Canada as being over 60 percent more than the direct economic impacts. (see [www.mining.ca](http://www.mining.ca))

as at December 15, 2009	
	(*000s CAD)
Revenues	316,364
Operating Costs (excluding wages)	165,247
Employee wages and benefits	80,458
Operating Assets Amortization	133,494
Payments to Providers of Capital	53,334
Payments to Government	28,491
<b>Non-Operating Costs (excluding wages)</b>	
	9,374
Employee wages and benefits	14,624
Non-operating Assets Amortization	2,361

Pension and benefit payments included in the above totalled \$6,806,300.

Distributions to providers of capital were as follows:

as at December 15, 2009	
Interest on debt and borrowing	\$46,068.00
Dividends on shares	\$Nil
Dividends of preferred shares	\$Nil
Arrears of preferred dividends;	\$Nil
<b>Total</b>	<b>\$Nil</b>

Four Impact Benefit Agreements are in place for the Snap Lake Mine, and there are three Impact Benefit Agreements and one Working Relationship Agreement in place for the Victor Mine. One of the Impact Benefit Agreements for the Victor Mine was ratified jointly in July 2009 by the Fort Albany First Nation and the Kashechewan First Nation. Each agreement is slightly different, reflecting the needs and priorities of the individual groups. Total payments to all seven Aboriginal communities with ratified and signed Impact Benefit Agreements and including the Working Relationship Agreement totalled \$4,757,000 during 2009. These payments include components for compensation, environmental monitoring, scholarships and the like, but exclude financial benefits related to business opportunities through the supply of goods and services.

### Investment in people and infrastructure

Corporate social investment by De Beers Canada has been and will continue to focus on our Communities of Interest (COI). Each operation is responsible for identifying their local COI, which includes but is not limited to local communities, our business partners and industry partners.

The main priority for De Beers Canada will continue to be our local Aboriginal partners with whom we have Impact Benefit Agreements in place. Through joint discussion, it was determined that the focus in this early stage of development and operations will include:

- health,
- education and youth,
- environment,
- general community development,
- arts, culture and heritage,
- housing,
- policy and advocacy,
- small business development, and
- sports.

Disbursements in 2009 totalled \$3.8 million including cash, in-kind and staff time. It should be noted that each community has individual needs and as such, each decision regarding corporate social investment is made accordingly.

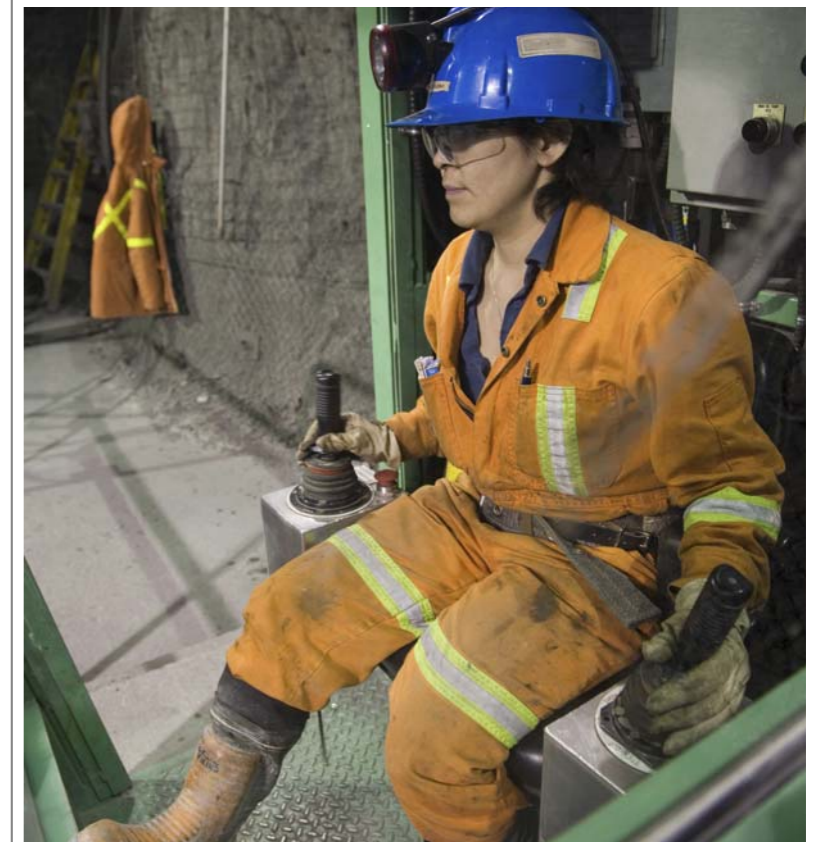
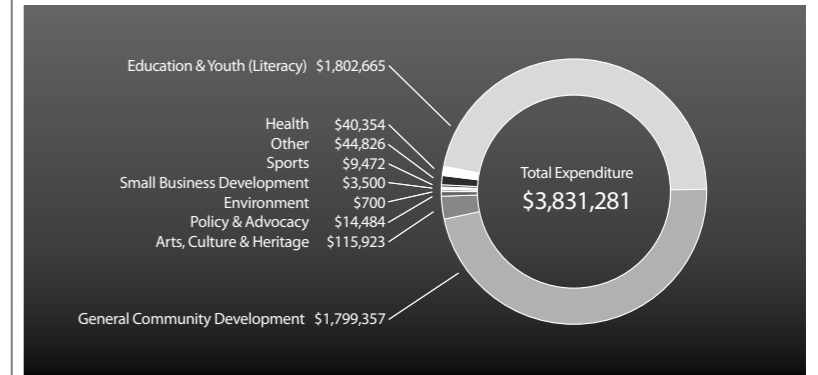
Table 2-5 summarises corporate social investment expenditures for communities of interest.

In the on-going discussion with the communities in which we operate, De Beers Canada has targeted a number of specific initiatives to address building capacity through business opportunities for the supply of goods and service, employment and training (including education). These initiatives have been chosen because these are the areas that these communities of interest have indicated are priorities for them.

### Sustainable contribution through diversification

One of the strengths of the De Beers Canada labour force is its diversity. The variety of nations represented provides many different views and approaches to problem solving that are stimulating for all involved. This enables the company to integrate local traditional ecological knowledge of the areas where we work into our planning and project design. Incorporation of both traditional and conventional western science ensures that we arrive at an optimal design for our mines and our exploration projects, and helps to demonstrate to the aboriginal communities how much we respect and acknowledge their history and knowledge.

Table 2-5: Corporate Social Investment in 2009.



Sharon Alanak, operating a rock breaker at Snap Lake Mine, is a graduate of the Aurora College Underground Mine Training Program and gained on-the-job experience at site.