

The year at a glance



2010 saw exceptional growth in global demand for rough diamonds, after two consecutive years of market decline. Average rough diamond prices rose by 27% over the course of the year, to levels surpassing pre-recession highs of 2008. This was due to increased demand from retail markets, particularly India and China, and a strong US Christmas sales season.

De Beers Canada increased production in 2010 in line with this growing demand. Overall carat production from the company's two mines increased by 53.4% compared to 2009 (1.75 million carats in 2010: 1.14 million carats in 2009). Snap Lake gradually increased output from a single shift at the end of 2009 to close to full production by the end of the year, while Victor mine continued at full production.

Despite this significant increase in production, our profitability was impacted by the strength of the Canadian dollar. Our revenue from the sale of diamonds is in U.S. dollars, while our costs are in Canadian dollars. Since the opening of the Snap Lake and Victor Mine in 2008, the weak U.S. dollar reduced the margin between our revenue and costs by almost 20%, putting a considerable strain on Canadian teams to contain costs through efficiencies and careful management of expenditures.

The diamond recovery in 2010 re-affirmed the importance of securing increased supply, and investing in future capital projects. At Gahcho Kué, a feasibility study by De Beers Canada in collaboration with our joint venture partner, Mountain Province Mining Inc, was completed with just a few areas requiring minor amendments at year end that should be closed off in early 2011 for a board decision whether to go ahead or not to proceed into the formal project phase. An Environmental Impact Study (EIS) was prepared and submitted to the Mackenzie Valley Environmental Impact Review Board in December 2010. On the exploration side, work focused on previously identified targets close to the Victor Mine as potential future resources.

Pressure from the exchange rate and a focus on maintaining the cost efficiencies that were gained through the challenges of the recession, resulted in ongoing cost-efficiencies throughout the year. Staff worked continually to identify additional ways to contain expenditures and increase efficiencies without increasing costs. Work centred on actively

searching for methods of shortening the project development timelines, focusing exploration efforts, examining acquisition, divestment and joint venture strategies, and building a strong group of sustainable projects. Both the Snap Lake and Victor Mines met their commitments to community, business and government partners throughout the year.

Our efforts were focused on the *Towards Sustainable Mining* initiative of the Mining Association of Canada. Considerable progress was made in this regard (see the assurance section for details). Several environmental initiatives were actively pursued and good progress was made with research for revegetation and rehabilitation at the Victor Mine. Our Corporate Social Responsibility and Social Investment activities were continued.

We were honoured to receive several awards during 2010. These were: the first ever Timmins & Area Chamber of Commerce's President's Award (Victor) for achieving a level of business excellence that merits special recognition including business contribution to Community, marketing innovation, environmental and Aboriginal partnership; an Ontario Chamber of Commerce Business Excellence Award (Large Business) – (Victor); and the John T. Ryan Safety Award (Western Region) – (Snap Lake) for safety in 2009.

Outlook for 2011

De Beers Canada is well positioned for 2011. The continuing strength of the Canadian dollar presents an ongoing challenge. The various forecasts that we have seen consistently predict that the Canadian and US dollars are likely to remain close to parity for at least the next year and that the Canadian dollar may even strengthen a little more. We will have to remain 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. Revisions to the work plans will be made as required during the year to maintain these business goals. At the same time, we will pursue the environmental assessment for Gahcho Kué so that this project is ready to be developed if approved by the board in 2011. We will continue our journey toward Zero Harm with renewed vigour and focus on reducing the number of incidents and accidents across the company.

About this report



This is the third annual Report to Society for De Beers Canada. As with previous years, the report provides an account of our sustainability performance over the preceding calendar year, and presents data captured over our annual production period of 16 December 2009 to 15 December 2010. None of the information provided in earlier years has been re-stated, except for water data (see Environment section).

This report contains a broad overview of the De Beers Family of Companies and where De Beers Canada fits into this, an overview of the 'Diamond Pipeline,' and sections addressing ethics, economics, employees, communities and the environment. Our focus is on the activities of De Beers Canada within Canada. In addition, we report on operations at the two mines including, procurement, product responsibility, exploration and assurance. Our theme this year is "Maximizing the Value and Life of the Resource".

This company-level report is prepared in addition to reports produced to meet regulatory requirements for our operations. For Snap Lake Mine these include Socio-Economic Reports for (2005-2009), and Environmental Reports (2005-2009), with the 2010 Environment Report planned for release by the end of June 2011. Similar reports on the environment were issued for Victor for the construction period (2006 - 2007) and for the first two years of operations (2008 and 2009), while the report for 2010 is scheduled for release by the end of June 2011. In the future, the statutory

reports will continue to be produced, and will also be linked to this report in the web based version by hyperlinks as they are produced. Note that the reporting period for most of the statutory reports is not a calendar year, but the period defined in the regulatory instrument.

Lessons learned from our first two reports showed that while the main sections provided much information, there was insufficient detail in several areas. We have reduced the use of technical terms and jargon to make the report easier to read and understand. We are increasing the use of graphs and figures to show progress now that we have three years' worth of data to work with. We have also increased the number of areas where we share our goals, and increased the information on Management Approaches. We hope that these changes will provide clearer information to the reader.

In keeping with our commitment to sustainable development, we are changing the format of our Report to Society to reduce our use of natural resources. The detailed full report will continue to be produced, but will be made available electronically on our website www.debeerscanada.com. Links are included to point to where more information is available on line. For those who prefer to receive the report in hard copy, a shorter, summary version can be requested and is available for download. We would love to hear back from our readers what you think of the summary printed report, and of the on-line version (see [Contact Us > Feedback Form](#) for alternatives to provide feedback).

What you will find in this report

This report summarises our activities with regards to sustainability and corporate social responsibility. We also include brief descriptions of our operations and exploration activities together with a summary of our economic performance to provide a "One Report" overview of De Beers Canada. We have tried to provide the information that our communities of interest have indicated is of interest to them. If there is additional information that you would like to see in the future, please let us know. We are producing this Report to Society to increase transparency and provide information to our communities of interest and stakeholders.

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

Download the complete report at
www.debeerscanada.com



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.

These are in addition to:

- (iv) economic growth,
- (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.

We had planned to have a more formal methodology to capture feedback and information from these communities in place during 2010. This will now only be in place in 2011. While our impact and benefit agreements define minimum frequencies for meetings with the communities, we have found it useful to hold meetings on a more regular basis where this can be arranged. Most of the information in this report summarizes data that communities have requested.

In line with the De Beers Family of Companies, we place greater emphasis 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 what we have heard from our communities of interest as being topics of interest to them, and on the requirements for both the Global Reporting Initiative (GRI) and the ISO 26000 guidance document. An alignment check was made with the requirements of the Prospecting and Developers Association of Canada’s “e3 Plus” program. There have been no changes from measurement methods used in 2008 and there are no re-statements of information from earlier reports, except for water data.

Where De Beers Canada is the operator, we report on Joint Ventures and statistics are included. 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 are nine such properties and these are considered to have a possible but currently unquantifiable potential.

This report is in general conformance with the GRI, including the Mining and Metals Sector Supplement, and the ISO26000 requirements (2010). Compliance tables for GRI and ISO26000 are attached as Appendices A and B.

Data are 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: volumes and tonnes mined and processed are from survey calculations, and direct tonnage measurements from scales called ‘weightometers’ that measure the mass of material passing over them in the process plant. The latter are reconciled with the materials mined. Information for communities is taken from notes and minutes of meetings, and from correspondence with stakeholders.

This report covers the period January 1, 2010 to December 31, 2010 in line with the intention for these reports to cover a calendar year, and the reporting period is unchanged from previous years. The statistics reflect our production period from 16 December 2009 to 15 December 2010. None of the information provided in earlier years has been re-stated, except for water data.



Foreword

from the Chief Operating Officer, and
Acting Chief Executive Officer Chantal Lavoie

De Beers Canada has built a strong foundation through social investment, with our Books in Homes program and our investment in learning and training centres. We recognize the importance of literacy as an investment for the future, and we remain committed to supporting these initiatives through the life of our operations. We will consider additional initiatives as the opportunities and available resources permit.

In this report, you will find figures outlining our training efforts and the scale of the business opportunities that our communities have been able to realize. While the business opportunities reflect the total value of the contract awarded and do not reflect the quantum of the profit to the respective communities, the numbers show a steady growth year over year.

Welcome to the 2010 De Beers Canada Report to Society, our third comprehensive assessment of our business unit, community engagement and efforts in the area of corporate social responsibility and sustainability.

Sustainability and corporate social responsibility are at the core of our business as we work to minimize our impact on the environment and maximize the benefits to all interested parties. Sir Ernest Oppenheimer, a former Chairman of the De Beers Family of Companies, of which De Beers Canada is a part, stated "Our aim is to make profits but to do so in a way that makes a positive and lasting contribution to the communities in which we operate." These words still serve, 56 years after they were uttered, to motivate and guide us on our path to sustainability.

As part of our progress towards sustainable development, we merged our environmental, occupational health and safety policies with our previous sustainable development policy to form a single broader and more comprehensive sustainable development policy.

As we move forward into 2011 and away from the issues of the economic downturn, it is our intention to increase our focus on the sustainability of our activities in order to improve the life of our operations, to control costs, reduce negative impacts and to improve positive benefits to our communities of interest over the longer term. 2010 was a year of consolidation for De Beers in Canada. The slow recovery in 2009 gathered momentum in 2010, resulting in a significant increase in demand. Throughout the year, our employees, community partners and business partners collaborated well and responded to the changing circumstances we faced collectively. It was inspiring to see many of the relationships strengthened by year-end as we focused on our production plans for 2011 and beyond.

Implementation of the seven Impact Benefit Agreements (IBAs) for our two mines continued, and considerable progress was made in most areas with regards to employment, training and business opportunities.

A number of initiatives will have priority in our corporate social responsibility and sustainability spheres over the next three to five years. With regard to safety, we will continue our drive for 'Zero Harm' and develop more leading indicators to augment the existing lagging indicators. We will expand the Internal Responsibility System, and once we have obtained our OHSAS18001 registration, it will help strengthen our safety and environmental management systems.

Our environmental management plans focus on biodiversity, energy and greenhouse gas management and reduction, and pollution prevention. This ties in with our Towards Sustainable Management (TSM) initiative as a member of the Mining Association of Canada. Our commitment is to reach level 3 across all the four existing performance elements by the end of 2011, and to improve this to a Level 5 by 2015. As the additional performance elements for TSM are launched over the next few years, we will attain a Level 3 and improve this to a Level 5 in a practical, safe and timely manner. Specific projects are identified for energy management and greenhouse gas emissions. Other environmental issues will be managed under adaptive management and continuous improvement processes. We will evaluate how best to verify those sustainability activities that fall outside the TSM initiative to strengthen our social license to operate.

The lessons that we have learned from the construction of our two existing mines, together with our operating experience over the last three years since they opened in 2008, will be incorporated into the design for Gahcho Kué, should it receive the go-ahead.

On the exploration front, we remain committed to best practices and our long history of early and proactive community engagement with our communities of interest. This engagement will continue to be grounded in respect, responsibility, and recognition of treaty and aboriginal rights. We will look for opportunities to leverage our skills and experience to assist our communities of interest with those issues and priorities that match our strengths.



Snap Lake Mine



Victor Mine

Operational highlights

With the improvement in global demand for diamonds in 2010, the production targets for De Beers Canada were increased by 54% at the start of the year in comparison to the actual carats produced in 2009. Already operating at full production, the Victor Mine was able to deliver 826,000 carats by the end of the year – an increase of 18.7% over 2009. The team also reduced costs and expenditures considerably, which was a tremendous help in off-setting the strong Canadian dollar.

Much of the work at Snap Lake featured growing the workforce and ensuring the employees were well trained by year-end in support of the return to full production targets. The year-end carat production for Snap Lake was 926,000, an increase of 108.6%. Considerable effort was expended on underground development to prepare a sufficient number of different areas for mining in the future and to provide us with the ability to be flexible in where we are mining.

Our performance in the areas of safety, occupational health and environment shows that we still have work to do to build a more resilient safety culture. The number of Classified Injuries (Lost Time and Restricted Work) is unacceptable, having increased from three (3) in 2009 to thirty-two (32) in 2010. An analysis indicated the majority of the injuries were the result of complacency with respect to the hazards in day-to-day tasks, weak task planning and inconsistent application of procedures for field-level risk assessments. The most common agencies of injury were slips, trips and manual handling of material. Injuries to the leg or ankle were most common resulting from slips, trips and falls followed by hand injuries resulting from manual material handling and improper use of non-power tools. Observations at the end of the year indicate that:

- i) under the leadership of the new Mine General Manager, Victor has made significant improvements in creating a culture of shared responsibility and no-fault reporting, and
- ii) continued strengthening of the safety culture at Snap Lake is required. An improvement strategy is being implemented at Snap Lake and progress will be monitored closely

All operations have maintained Environmental Management Systems certified to ISO 14001. Safety and Health Management Systems based on the OHSAS 18001 standard are in place. The goal to be certification ready by the end of 2010 was met by Exploration and full certification is on track for March 2011; however, the mines experienced a set-back in achieving this goal. The delay was related primarily to turnover of key staff and competing priorities. Key occupational health components including engagement of employees and training needs to be completed before the first stage of certification can be completed. The revised targets for achieving certification are July 31 and September 30 in 2011 for Victor and Snap Lake, respectively. These targets will be included as KPIs for the Mine General Managers and progress reported monthly to the Executive Committee of De Beers Canada.

Thank you for taking the time to learn more about De Beers Canada. I hope this 2010 Report to Society will provide you with a better understanding of our purpose, vision and values. I encourage you to provide feedback to us on the nature of this report and its content. At the end of this report, there is information on how to submit comments, and there is a link online to help readers do so.

Financial overview

from the Chief Financial Officer, Steve Thomas



2010 was an incredibly dynamic year. We saw robust price increases for rough diamonds against the backdrop of continued global economic fragility. We sell our diamonds to our sister company, the Diamond Trading Company (DTC). The DTC set about addressing the price reductions felt across the industry in 2009, through a series of cautious but consistent price increases in 2010 as the global economy continued to recover. These increases took into account the state of the returning global demand, the sense of optimism across the diamond industry, buoyancy in the retail market and the stability among our Sightholder customer-base. These price increases exceeded those forecast in our 2010 budget and went a long way to countering the impact of the weak U.S. dollar and difficult foreign exchange rates.

Although Victor Mine exceeded its planned production in terms of the number of diamonds recovered and sold, Snap Lake Mine did not meet its target of diamonds recovered. This resulted in De Beers Canada producing fewer diamonds than planned in 2010. Despite this shortfall, the price increase was significant enough to offset both the negative impact of the foreign exchange position and the shortfall in diamond sales to leave De Beers Canada with higher reported revenues than those forecast. This outcome emphasizes the importance of price on the bottom line of the company. To maximize the benefit of strong prices, it was essential throughout the year to demonstrate an ability to control our operating costs and capital program to ensure that both came within budget. This required us to revisit our planned expenditures in order to absorb unforeseen costs. We did this by adjusting our thinking in other areas, and looked for new innovative solutions that required less investment. The De Beers team responded to this continuous challenge to make sure the books remained 'balanced'. I am pleased to announce that we not only achieved this, but we came in under budget.

We completed the investment in the accommodation complex at Snap Lake Mine in 2010, transitioning from the aging construction camp to this modern, fit-for-purpose unit. This inter-connected facility forms one of the commitments we made to Snap Lake during the project phase, and was an essential investment to ensure we attract and retain the right employees in an increasingly competitive mining industry.

Outside of our current mining operations, we continued to move forward with our exciting prospective project, Gahcho Kué, with our joint venture partner, Mountain Province Diamonds Inc. During 2010 we made significant progress in assessing the entire capital and operating solution for the potential mine. De Beers Canada and Mountain Province retained JDS Energy and Mining who produced a draft feasibility study, which Mountain Province have reported as demonstrating robust financials. The study is currently undergoing review by the Joint Venture Partners.

During 2010, we also responded to new initiatives by the De Beers Family of Companies to continuously improve the effectiveness of our reporting processes. We successfully implemented a new reporting process on-time and on-budget and are benefiting from the efficiency of the automated production of our monthly financial reports. Similar system-developed initiatives launched in 2010 will continue into 2011, delivering smarter and more efficient solutions to report accurate data quickly and with the flexibility to accommodate any changing scenarios the market may dictate. In a similar vein, 2010 saw an overdue investment in our Information Technology (IT) infrastructure with the creation of an entire independent centre for our communication and infrastructure hub, providing the redundancy a company of our spread and complexity requires. Other investments in our IT infrastructure included the adoption of upgraded hardware and software aimed at improving our ability to continuously access, process and interpret the many essential business information items that we rely on to make smart decisions ahead of issues arising.

In summary, 2010 proved to be another challenging but rewarding year. We made great strides across all operational aspects of the business, advancing the knowledge within the business while building the robustness needed to anticipate and react to future challenges. No doubt 2011 will prove to be an equally dynamic year. We will face it with increased optimism due to the steady improvement in the global economy, the continued forecast growth for the diamond industry and the confidence in our team at De Beers Canada to continue to overcome both the known and unexpected challenges De Beers Canada has already faced in our young history.