

Diamonds are forever

Which is good because call on Star mine still a year away

BY CASSANDRA KYLE, THE STARPHOENIX MARCH 12, 2010



George Read at Shore Gold headquarters in Saskatoon with a picture taken 235 metres down in the Star kimberlite in 2004

Photograph by: Richard Marjan, The StarPhoenix, The StarPhoenix

It's been more than 20 years since something so special was discovered in the Fort a la Corne forest of central Saskatchewan that the work to understand its unique features is still underway today.

In 1989, the first diamond-bearing kimberlite was found in the forest, about 65 kilometres east of the city of Prince Albert. Seven years later, the Star kimberlite was discovered.

Now, Saskatoon-based Shore Gold Inc., which owns the Star diamond project and the majority interest in the adjacent Orion South kimberlite, is one year away from deciding whether to mine the gems buried about 100 metres underground.

The company's preference is clear.

"We've shown that a world-class diamond mine is feasible in Saskatchewan," said George Read, Shore Gold's senior vice-president of exploration and development.

"Certainly the makings are all there. We now have to put this together, get the final work done, get all the decisions made in order to make this happen."

\$8 BILLION IN THE GROUND

Momentum is building for the development of the Star-Orion South diamond project. The company believes construction could start as early as 2011 on two open-pit mines -- one at each deposit -- and a joint processing facility that would process up to 40,000 tonnes of ore per day, making it the largest such plant on the planet.

Shore Gold revealed in a recently released prefeasibility study it expects the cost to build and operate the mine over its lifespan -- anticipated to be a minimum of 20 years -- would be \$2.5 billion.

Read says the construction phase of the project would employ some 500 people and, when the mine starts production in 2016, employ some 500 more.

The study shows the site could produce 35 million carats over its lifespan -- and at an average price of \$226 per carat, that means there's nearly \$8 billion in the ground at Star-Orion South.

"The two really favourable factors of the project is that the diamonds are attractive and valuable in that the average price for the diamonds is essentially three times the world average," Read said in a recent interview.

ENVIRONMENT STUDY NEEDED

But a mine at the site isn't a done deal. During the next 12 months, the company plans to complete additional geological testing and submit its environmental impact statement (EIS) to the provincial government for approval.

Read said Shore Gold is taking steps to ensure the diamond mine -- if it comes into production -- will leave as minimal a footprint as possible on the environment. The mine site, he said, takes up two to three per cent of the total area of the forest.

"You must remember that the forest is an island forest in a sea of farmland and it only exists because the land was too infertile for agriculture," he said.

The senior executive said the site's close proximity to the provincial electricity grid will help the company reduce a reliance on fossil fuels at the site. Only a small fleet of diesel trucks, Read explained, will be used to move ore from the open pits -- which are about two kilometres apart -- to the processing plant, which would run on electricity.

In addition to the nearby energy source, Read said a regional workforce and quick access to provincial highways -- the closest is about 20 kilometres from the site -- helps make the case for operating a diamond mine at Star-Orion South.

"We can drive a pickup truck to and from the site 365 days of the year," he said. "We also have the potential for a labour source. There are people who live in the district that are familiar with mining and certainly that is another advantage."

REGION COULD BENEFIT

It's not just the company that's excited about the potential for a billion-dollar diamond mine. The north-central region of the province would be the recipient of huge economic benefits if Shore Gold moves ahead with the project, says economic development officer Jonathon Theaker.

"If it were to go ahead, it would mean jobs for us and investment in our community," said Theaker, who works out of the Prince Albert-based North Central Economic Region development office.

He added indirect jobs providing retail, food, accommodation, transportation, security and technical services to the mine would also be created.

While the region isn't relying on the development of the Star-Orion South project for economic growth, Theaker said the overall impact on the region of 70,000 people would be positive.

He says the area is already working ahead to ensure there's enough infrastructure, supplies and skilled workers available to service the direct and indirect demands that would naturally come with such a large industrial worksite.

Read said he believes the province, through its experience with potash and uranium mining, is ready to add diamonds to its repertoire.

"I am confident that Saskatchewan can also contemplate being a major diamond producer in the future," he said.

The company is assessing several options to finance the project, including equity and debt financing, partnerships with larger companies and alliances with diamond merchants.

While it remains to be seen what the final outcome for the ancient kimberlites in the Fort a la Corne forest will be, Shore Gold believes the best option for the hidden gems will be to bring them to the surface and send them around the world.

"I think the diamonds will be fantastic. I think it will be a huge strength for Saskatchewan," he said.

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STAR-ORION SOUTH BY NUMBERS

- 7.9 -- Billion dollars worth of diamonds estimated to be at the site
- 35 -- Million carats of diamonds expected to be mined
- 20 -- Years minimum of anticipated mine life
- 40,000 -- Tonnes of ore to be processed at the site daily
- 4.20 -- Dollars per processed tonnes to be paid in taxes
- 2.5 -- Billion dollars in estimated construction and operation costs
- 500 -- Workers during both the construction and operation phases of the mine
- 100 -- Carat diamonds expected to be found at the site
- 50 -- Carats: The size of the two largest diamonds found so far (fragments of larger stones)
- 12 -- Months before Shore Gold anticipates a production decision for the project