

DIAMONDS

Pressure remains on 'stable' diamond industry

Paul Zimmisky*

Rough diamond prices were relatively unchanged in the March quarter of 2015 as credit availability for mid-stream participants remained constrained, however, recently Petra Diamonds mentioned reports of "new sources of financing becoming available to diamantaires".

Last year, rough diamond prices were down 3-to-5%, as the closure of Antwerp Diamond Bank in October led to industry-wide liquidity concerns for rough diamond buyers, and global economic and geopolitical tensions pressured prices.

In 2015 the US dollar has continued its ascent, making diamonds more expensive for buyers in Japan, the EU and Russia on a dollar-adjusted basis, which also has hindered demand.

China, which is the industry's fastest-growing market, and now the second-largest market in the world for diamonds after the US, recently cut interest rates and lowered reserve requirements aimed at buoying GDP growth which is estimated to come in at 7% this year, compared with 7.4% last year, and a peak of 14% in 2007.



Underground at the Finsch mine in South Africa

The sixth-largest diamond miner in the world by production value reported quarterly production results on Thursday. London-listed Petra produced 791,443ct during the three-month period ending March 31, which was down 1% quarter-on-quarter, but up 6% year-on-year.

The company's average price during the period was US\$116.20/ct, compared with US\$153.20/ct 90 days prior and US\$180.90/ct 12 months prior, marking a decrease of 24.2% and 37.5%, respectively.

Petra notably produced lower-quality diamonds at the company's second-largest mine, Cullinan, resulting in a reduced average price per carat for the company during the period.

Cullinan, which has a history of producing exceptional

diamonds, did not recover any noteworthy stones during the period, but the 122ct fancy blue recovered last year was cut into four stones and is expected to be sold in coming months. Petra retained a 15% interest in the net sale proceeds of the stone when the company sold it to an undisclosed cutter for US\$27.6 million last year.

Cullinan is estimated to produce 800,000ct this year, and Finsch, the company's bellwether mine in South Africa, is estimated to produce 1.9Mct. Global rough-diamond production is forecast to reach 135.5Mct in 2015, which would be an increase of 3.4% year-on-year.

Petra's shareholders responded by sending the stock down £19.30 to £165.00/share, or -10.5%, during trading in London last week. However, it is still up 6.7% over the past year. In 2014 the company reported plans to start a maiden dividend programme in 2015. Petra has US\$48.1 million of cash on the balance sheet.

Gemfields, a pure-play emerald miner with ambitions to be the "De Beers of emeralds", hit an all-time high of £0.675/share on Thursday. This week the company said it would gain

new access to local emerald supply when a purchasing office is opened in Zambia this month.

In 2012 the company acquired 150-year luxury outlet House of Fabergé for £89 million as an integrated distribution channel for selling its highest-end gems. A year later the company hired American actress Mila Kunis to be the company's spokesperson. The £371 million (US\$555 million) market-cap company's stock is up 24.5% since April 1 and up 67.5% over the past 52 weeks.

Toronto-listed diamond explorer North Arrow Minerals also hit an all-time high last week. The company has been credited with Canada's newest diamond discovery since it hit diamond-bearing kimberlite in east-central Saskatchewan in 2013. The project appears promising, as last month the company discovered three more kimberlites on the property. North Arrow also has a 26Mct inferred resource in Nunavut, which has shown an occurrence of yellow diamonds. The C\$52 million (US\$42.61 million) market-cap company's stock hit C\$1.08 last Thursday and is up 29.5% over the past 52 weeks and 359% over the past two years.

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Stellar on right trajectory

Richard Wachman

Stellar Diamonds has unveiled an operational update from trial mining at its 75%-owned, 5ha Baoulé kimberlite project in Guinea.

Trial mining has yielded a total of 5,087ct to date at an average grade of 13.5ct/100t.

The company said: "High-quality gems continue to be recovered, including stones of 12.6ct and 10ct."

First sale of 733 gem-quality

carats from Baoulé last month realised US\$195,000 for an average value of \$266/ct (which formed part of a larger sale of 4,414ct). Included in that sale was a 5.55ct stone that sold for US\$5,000/ct and several stones that exceeded US\$1,000/ct "underpinning the high value and quality of some Baoulé gems".

The next diamond sale is planned for May 2015, with the objective being to recover a total of 15,000ct to complete the trial mining phase and provide a

basis for deciding whether to advance Baoulé to commercial scale mining.

A JORC resource would be confirmed on completion of trial mining. The current in-house estimate is for 3.3Mct based on previous drilling and an average target grade of 15ct/100t.

Stellar chief executive Karl Smithson said: "Our objective is to produce 15,000ct from this exercise to enable us to determine the grade, value and presence of large stones in the

pipe, with a view to using this information to consider a decision to advance Baoulé to commercial-scale mining. It is pleasing that we have achieved our maiden revenues following the first diamond sale from Baoulé, as well as other Stellar projects.

"We are currently planning the next export and sale of Baoulé goods and remain committed to targeting additional diamond sales throughout 2015."

Stellar is capitalised in London at £6.5 million (US\$9.7 million).