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Diamonds and Gems

6 OCTOBER 2016

Stellar Diamonds notes positive results for combined Tongo and Tonguma diamond project

Stellar Diamonds has announced the positive results of an independent preliminary economic assessment (PEA) for the combined Tongo and Tonguma project.

Stellar Diamonds and privately-owned mid-tier diamond mining company Koidu Limited subsidiary Octea Mining agreed in August to combine their adjacent Tongo and Tonguma diamondiferous kimberlite dyke properties in eastern Sierra Leone - with the aim of creating the second largest mine in West Africa.

Stellar Diamonds on Wednesday subsequently announced the results of the PEA, prepared by independent industry consultants Paradigm Project Management and SRK Consulting South Africa, which demonstrates a financially robust and high margin 21-year life-of-mine over an initial resource of 4.5 million carats, and an estimate of 3.96 Mct of recoverable resource.

The PEA also recognises that considerable upside exists from additional high-grade kimberlite dykes on the properties which are not yet categorised into the resource.

To date, only 3 kimberlites dykes of a total of 11 on the properties (4 at Tongo and 7 at Tonguma) have been categorised as resource to date, being Tongo Dyke-1, Kundu and Lando for a total of 2.2 Mt and 4.50 million ct at a +1.18 mm cut off.

Diamond values range from $209/ct for Kundu and Lando to $310/ct for Tongo Dyke-1.

A further four dykes have been drilled out at Tonguma and along with certain sections of Lando and Kundu are classified as “exploration target” which offers a mid-range total of 5.6 Mt and potential for a further 7.96 million carats for the project.

Although it can’t be guaranteed that further exploration will result in this exploration target becoming a mineral resource, the directors consider that this target demonstrates significant upside to the overall resource base of the project and it is the intention to bring the “exploration target” into the JORC resource category in due course through further drilling and sampling.

“The PEA of the combined Tongo-Tonguma mine demonstrates robust financial returns for a modest capital requirement and supports the board’s decision to pursue this strategic acquisition,” says Stellar Diamonds chief executive Karl Smithson.

He notes that three kimberlite dykes, Kundu, Lando and Tongo are contained within the mine plan and have compellingly high diamond grades and values and together support a long life of mine.

Stellar Diamonds is further encouraged by the potential which exists to significantly increase the resource base by bringing a number of additional high grade kimberlites that have been discovered to date on both licences into the long term resource base.

“We continue to make good progress with the legal and other due diligence processes that are required to complete the transaction and will provide further updates in due course,” says Smithson.

Transaction update

The competent persons report on the project will be announced in due course and marketing to new investors and existing shareholders will then commence.

By virtue of the transaction being classified as a reverse takeover under the AIM Rules for companies, trading in Stellar's shares on AIM will remain suspended until either an admission document is published or Stellar announces its or Octea's withdrawal from the transaction.

The transaction, if completed, would result in Stellar having a 75% economic interest in the project following preferential repayment of the initial investment made by Stellar and payment of certain revenue royalty payments.

Stellar pointed out that shareholders should note that the transaction remains subject to a number of conditions, including *inter alia*, publication of an admission document and shareholder approval.

Mine plan and financial model

The underground mine plan is currently configured as a series of declines from surface at Kundu, Lando and Tongo.

The declines will be 4 m x 4 m in cross section and will be developed at an angle of 8-degrees.

Mining levels will be interspaced at 35 m depth with the first levels being developed at 40 m below surface.

Based on the current resource models, Tongo will have a planned 11 levels, Lando 10 levels and Kundu 5 levels during the 21 year life of mine.

The ore bodies will be accessed by 2 m x 2 m drives and cross-cuts into stopes that are mined by traditional overhand shrinkage stoping mining methods, with the ore being drawn from access points and transported on underground locos and tipped into bins on an ore pass system.

The financial model for the underground mining study is based on mining the 3.90 million carata of the 3.96 million carats of recoverable resource at Tongo, Kundu and Lando and does not include any of the 7.96 million “exploration target” carats which may be brought into a future resource estimation.

The initial two year capital requirement to bring the mine into production is estimated to be $31.8 million (including a 15% contingency) and $90 million over the 21 year life of mine.

Based on the life of mine project costs ($847 million) and revenues ($1,518 million) the financial model demonstrates an NPV of $172 million and IRR of 49% on a pre-tax basis.

Based on the un-escalated operating costs and carat recovery over the life of mine, the cost per ct at the present time is estimated at $115.3/ct against the un-escalated average diamond price (across all three kimberlites) of $228.6/ct, giving an operating margin of 49.6%.

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