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Pam Strand and Julie Lassonde have bought the defunct Jericho diamond mine - left for dead by pretty much everybody just two years ago - for \$38-million. What were they thinking? PAGE 24

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■ Pamela Strand (left) and Julie Lassonde.

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Can these women resurrect Jericho?

Pam Strand and Julie Lassonde have bought the defunct Jericho diamond mine – left for dead by pretty much everybody just two years ago – for \$38-million. What were they thinking?

BY LAUREN MCKEON

In the excitement, nobody stopped to fix Prime Minister Stephen Harper's hair. He began his speech in front of the assembled guests with a salt-and-pepper cockatoo's curl, his coil licked up by the cool, steady wind. "Mines like Jericho are making Canada one of the largest and most important diamond producers in the world," Harper told the assembled guests.

It was August 2006, and the official opening of the little-mine-that-could was taking place in front of 200 people on the barrenlands near the Nunavut-NWT border. Under bright sunshine, political and business dignitaries spouted optimism as their shoes stuck to the still-tacky paint on the makeshift stage – three drill rig boxes stacked high, an elevated dash against the flat wilderness. Ribbons were cut and hands shaken in congratulations. "It is symbolic that the first mine that has ever opened in our territory is a diamond mine," said then-premier Paul Okalik, counting from Nunavut's creation in 1999. "It's a gem." CONTINUED...

Indeed, at the time Jericho was everybody's darling. Bay Street had bought into the vision of a small, nimble Canadian company – Tahera Diamonds – competing against the mining behemoths of De Beers, Rio Tinto and BHP Billiton. New York-based jewellery giant Tiffany & Co. had agreed to purchase most of the diamonds. The territory was excited about job opportunities for Nunavummiut, and official Ottawa was quick to jump onboard, with both the prime minister and Jim Prentice, then-Minister of Indian and Northern Affairs Canada, exposing themselves to the chilly April winds 420 kilometres northeast of Yellowknife.

It was the opening of the North's third diamond mine, one that seemed destined to contribute to this country's reputation as one of the world's top diamond producers. But that was not to be. Within two years Tahera was bankrupt and the mine on the barrenlands shuttered. Shareholders lost everything and Nunavut lost its only mine. INAC took over the care and maintenance of the abandoned site.

The autopsy began a few months after Jericho's heartbeat reached zero, and once the questions started, it was hard to stop them. Analysts were quick to conclude that Jericho was a turkey that should never have come to dinner, with one remarking: "The write-off that they [Tahera] have taken pretty much confirms that Jericho should never have been put into production."

Tahera's senior secured creditor, Caz Petroleum, commissioned three reports. Scientists, engineers, and geologists prodded and probed the patient, laying it open like a great body on a slab: What happened? How did it go wrong? Could its death have been prevented?

The answers contained in those reports

have convinced Pamela Strand and Julie Lassonde that this patient can be revived. In August they bought Jericho for \$38-million in cash and stock options and are convinced – in a way Graceland fans know Elvis lives – that Jericho will rise again. Strand, CEO and president of Shear Minerals, and Lassonde, Shear's new chairperson, say they know why Tahera really failed. They say Jericho was always a gem and, given the chance, they'll build the mine bigger and brighter than Tahera ever dreamed.

PAM STRAND IS ALL THE things you'd want in a company head: smart, confident, well spoken and impeccably dressed. Her Northern cred can be inferred from her ability to say "Iqaluit" properly, with a soft whoosh over the first syllable and ending with "loo" and "eat." A geologist, Strand first came North in the 1980s, after landing a job to explore for gold near Rankin Inlet. She worked at Yellowknife's Con mine for a time, as district geologist with the NWT division of INAC, and today is a director for the NWT & Nunavut Chamber of Mines. As the driving force behind Edmonton-based Shear Minerals, she's been digging for diamonds in Nunavut since 1997.

Before the Jericho purchase, Shear was focused on its Churchill diamond project, located near Rankin Inlet in Nunavut's Kivalliq region. While Churchill is promising, Strand couldn't help but be curious when, last year, she met a couple of researchers who'd worked at Jericho. During their presentation at the University of Alberta, the researchers revealed that there were unexploited areas of Jericho's kimberlite ore with eye-poppingly high diamond concentrations. Strand thought: There is a story here that isn't being told.

So she cold-called Jericho's de facto owner, Paul Champagne, president of Caz Petroleum. Nothing came of her first series of meetings with Champagne in August 2009. He was reportedly impressed, but not enough: He decided to keep marketing Jericho.

But no one else wanted to touch the hot potato mine. In February 2010, Champagne re-approached Strand and Lassonde, who by then had been recruited by Shear to help with the due-diligence process. Yes, Strand told him, Shear was still interested. "I just want to start a diamond mine up there," she says. "I want to do something in the North that's significant for the people of the North and everybody else – including our shareholders."

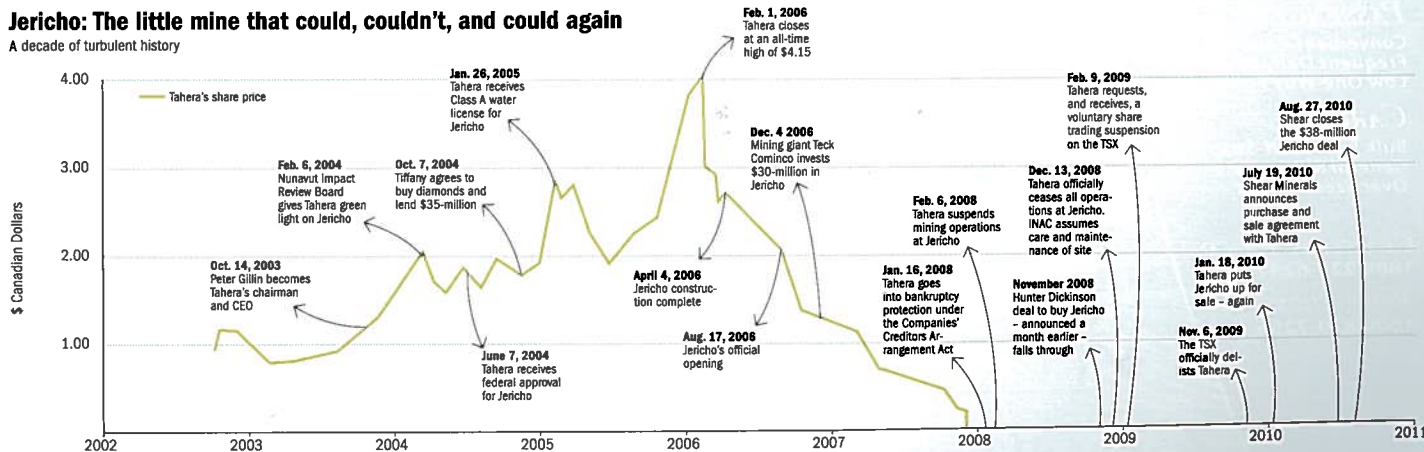
LIKE MANY, TAHERA'S search for diamonds in the North began after the discovery of diamonds in Lac de Gras in 1991 – a significant find that caused many junior exploration companies to flock north. In the early '90s Tahera staked 30,000 square kilometres of ground and discovered six kimberlite hotspots and 13 other possible diamond finds in its claim blocks. The kimberlite that would become the basis for the Jericho mine was discovered in the spring and summer of 1995. The deposits were dubbed JD-01 and JD-02.

In the meantime, BHP Billiton opened the North's first diamond mine, Ekati, in 1998. Jericho, at 1/20 of the size, was never supposed to be as grand as Ekati, whose open pits look as if giants dropped bowling balls from the sky. But it was supposed to be second, and it was supposed to be profitable.

In those early days Tahera collected more than 10,000 tonnes of kimberlite. According to a report by SRK Consulting, a well-re-

Jericho: The little mine that could, couldn't, and could again

A decade of turbulent history



spected consulting company with a history of involvement with the diamond industry, reasonable economic extraction was possible. Next came a series of technical studies and a preliminary feasibility study, which was followed by a full feasibility study in 2000. Two consultants hired by Tahera provided separate value models for diamonds found at JD-01, with one pegging the value at \$94 per carat and the other at \$72. After a review, SRK, who was employed by Tahera at the time, recommended using the lower values to provide a conservative estimate of the mine's economics.

But even before that grand April opening, red flags were popping up, bright against the clear field of hindsight. Some observers called it the perfect storm of bad luck for a beginner operation: Unusually warm weather considerably shortened the ice road season in 2006, severely curtailing Tahera's ability to truck supplies north. Fuel prices sky-rocketed, diamond prices plummeted, and the loonie caught up to the greenback, spelling disaster for a company whose expenses were in Canadian dollars but whose income was largely in American.

Sure, Jericho suffered bad luck, but there were other problems that could more appropriately be put down to poor planning and execution, and it's these that give Strand hope for the future. "We're not here to point fingers," she says. "But there was definitely a snowball effect." While she and Lassonde don't want to dwell on the past, they do plan to learn from it.



Jericho's first opening in April 2006, with Prime Minister Stephen Harper (second from right) in attendance.

The bottom line is stark but simple: Despite years of planning, Jericho was never able to recover enough diamonds. "The plant did not achieve the design capacity on a sustained basis," wrote SRK in its report. "Production targets in the process plant were seldom met during the short operating life of Jericho Mine."

The plant was designed to process 60,000 tonnes of kimberlite ore per month, but it met that goal only once. The inability to consistently meet target grades of 0.85 carats per tonne (or better) was another blow. Indeed, grade targets were only met twice, in June and July of 2007. SRK estimates that the plant's diamond recovery efficiency rate was, at best, 77 per cent.

SRK identified three major problems. To begin with, the equipment wasn't right. The machine doing the initial crushing of the ore never performed as it should have, and large quantities of crushed ore exceeded the ideal

size. This meant some diamonds weren't separated from the ore from the start. The screens used to separate diamonds from ore were also the wrong size. Generally, the screens are manufactured to a standard of one millimeter; stones bigger than that can be cut and polished profitably. Likely in an attempt to reduce stress on the overloaded and undersized system, Tahera switched the standard panels with 1.25 mm screens. Meaning, diamonds bigger than 1 mm but less than 1.25 mm were systematically tossed into the waste rock pile. A small but telling loss.

Things might have been better if the diamond recovery plant had multiple ways to capture diamonds that had slipped through, but it didn't. It had one. Because of the diamond size, reflected SRK in its January 2010 post-mortem, "It is important to maximize the recovery of these stones by designing a recovery plant to include at [least] two capture opportunities."

There was also an unhelpful pressure to put Jericho into production quickly and to capture the wave of enthusiasm that was washing over the Canadian diamond industry. Rio Tinto had already opened the NWT's second diamond mine, Diavik, in 2003 and stolen a large piece of the glory. "The engineering was rushed and sometimes things go awry despite your best efforts when things are rushed," says Lassonde. "In a way that damned the mine itself."

While well-designed and well-operated mines were fated to survive – suffer, but

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survive – a recession and a string of bad luck, Jericho didn't have a hope. With humans, it's known as a preventable death. In mining, the autopsy report classifies it as something else: fixable. For Shear, its shareholders, investors and people in Nunavut, that's a good thing. "It's heartening in a way," says Lassonde, while conceding that she took no pleasure from reviewing another company's final days.

And, unarguably, those last days were tough. In mid-January 2008, Tahera sought bankruptcy protection. The company suspended mining operations on February 6, and continued to process ore for only a few months before officially ceasing operations in December 2008.

From there, Tahera's situation became a captivating and horrific disaster. The little company put Jericho up for sale at the beginning of the corporation's fall. There was a bite, but the deal never closed. By spring of 2009, Jericho had cleaned out its Toronto offices, selling \$34,125 in furniture and office supplies to help pay the bills. A Toronto judge extended bankruptcy protection several times, keeping dozens of creditors claiming millions of dollars at bay. Sensing a better market (and a tightening noose), Tahera tried to sell Jericho again in January 2010. Nobody could be blamed for predicting another no-sale. Who'd want it? If Jericho couldn't survive one rough season, was it worth the gamble?

Strand and Lassonde had \$38-million that said yes.



■ From the start, Jericho ran into trouble: a short ice-road season, high fuel prices and low diamond prices.

While Shear could re-start Jericho with some fiddling and, Strand believes, possibly turn a profit, the mine currently only has about four year's worth of production left. For Jericho to be worth it, Shear needs to double that number. To do it, Strand drafted an 18-month exploration program, during which no stone – quite literally – will go unturned. Not only will Shear re-examine the main Jericho kimberlite pipe – which has only been defined down to 190 metres – but drilling will also be completed on the second main deposit on the property, known back in Tahera's day as JD-02. They'll also try to trace some loose kimberlite deposits back to their source. And, because Shear purchased a property that's already had \$200-million invested in capital costs, everything they find, says Strand, "is gravy."

But, how much gravy is enough? "What we really need to do is change the entire paradigm that is Jericho," says Lassonde.

"[We need to] find enough at Jericho to go forward with a 10-year mine life." Shear is hoping it will have a reassessment of Jericho completed by the fourth quarter of 2011. Ideally, a decision to open could be made by 2012. But don't expect them to go chasing after it like hares; unlike Tahera, Shear will be a tortoise if it means success. "[Reopening Jericho] is absolutely our end game," says Lassonde, "but exploration is critical to getting this right."

THE WORLD OF DIAMONDS may have luxe appeal, but as RBC Capital Markets diamond analyst Des Kilalea says, it is also a small, small world. Total global production is about 160 million carats per year. This equals a total value of about \$14-billion per year, which plummeted to \$9-billion in 2008's market crash. Compare this to a worldwide production value of \$70-billion for gold, or \$120-billion for copper, or even \$20-billion for platinum – and you may even call diamond mining small potatoes. Canadian diamond mines control about 18 per cent of the worldwide production value. But they, and many of the diamond mines in the rest of the world, are mid-life; their plentiful, easy-to-get diamonds are already mined, and despite production ramp-ups going forward, there will be no real growth in output.

"Demand is outstripping supply already and that's going to get worse in the future," says Pierre Leblanc, principal of Canadian Diamonds Consulting, a firm that special-



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RESURRECT JERICO? CONTINUED


izes in commercial and policy advice to the industry. “No new mines are opening, and more and more mines are coming to the end of their lives.”

Some, such as Kilalea, predict this outpacing will happen as early as 2016. China and India are the driving forces behind this enormous growth in demand. “Between the two of them, they’re close to 2.5 billion people,” says Leblanc. “Even if you say the top-paid people represent only three per cent of the population, well, what’s three per cent of 2.5 billion people? That’s many times more the population of Canada that wants diamonds and can afford them.”

Going forward, Lassonde says she will become “the face of marketing” – which, for her means excelling at the art of liaising with shareholders – while Strand will stay “the face of exploration.” No matter what face they wear, though, both women say resurrecting Jericho will be tough. “Is it going to be an easy fix?” says Lassonde. “No probably not. There will be growing pains, as with anything.” Strand has no illusions, either. “We’re setting some pretty aggressive milestones,” she adds. “It’s going to be a big task to meet them.”

But neither woman is given to lip service. When Strand says she wants the mine to translate into wealth for Nunavut, you find yourself believing it – rooting for her, even. When Jericho was churning out the sparklies, about 30 per cent of employees were Nunavummiut. Then, there were the contracts with companies in the Kitikmeot area for everything from catering to expediting to trucking.

Shear has already had calls from companies hoping to work at the mine (and some from companies still owed by Tahera. Strand has to remind them that Shear purchased Tahera’s assets, not its liabilities). This isn’t small potatoes: With Shear’s commitment, the resurrected diamond mine could provide the territory’s economy with a rocket-sized boost, and give it some experience for handling the many potential mines waiting in the wings.

If Shear can beat the stigma of a failed mine, overcome the hype, and stick to a solid plan, Jericho will rise again. In the process it will become the gem everyone was hoping it would four years ago while standing under miles of blue sky and marshmallow clouds. 

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