

Brazilian Diamonds hopes for Canastra permission

Brazilian Diamonds Ltd (C:BDY)
Shares Issued 168,413,722
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by Will Purcell

Kenneth Judge's Brazilian Diamonds Ltd. is still waiting on the Brazilian government for the approvals that would allow it to start mining the Canastra-1 kimberlite pipe in the Minas Gerais region. The wait has been long, but Mr. Judge is hopeful the issues will be settled soon. Earlier work on the modest pipe yielded encouraging results and Brazilian Diamonds expects a healthy cash flow from Canastra.

The delay

Brazilian Diamonds purchased the property in 2002 from De Beers. The diamond giant discovered the Canastra-1 pipe and completed a bulk sample, but then lost interest. The main concern was undoubtedly the small size of the pipe and its modest diamond content, but the environmental issues likely helped dissuade De Beers from continuing the hunt. In any case, Brazilian Diamonds has been waiting for permits ever since it acquired the property.

The crux of the issue is a national park that the Brazilian government was planning to expand, and the Canastra property lies immediately south of the park. In fact, the Canastra-1 pipe lies just three kilometres south of the existing park boundary and five kilometres west of Sao Jose do Barreiro. The 72,000-hectare park is currently about 60 kilometres long and averages about 12 kilometres wide.

The Brazilian government has not officially issued a moratorium on work in the area, but it has not issued any exploration permits for the region for years. The issue is much larger than Brazilian Diamonds, as many other groups and industries are similarly affected. As a result, the Brazilian government and its environmental agency have been feeling increasing pressure of late.

Mr. Judge said significant progress occurred over the past several months and he thinks the end of the delay is near. Brazilian's London-based chairman said that the Brazilian government submitted a bill that would confirm the dimensions of the park, and the boundary would exclude Canastra-1 and a second pipe on the property that interests his company, Canastra-8.

Mr. Judge added that the bill received approval from a lower house committee and it was proceeding to work its way through the Brazil's legislative bodies. As a result, Brazilian Diamonds thinks that it will finally get approval to resume work, perhaps by mid-2008.

Further, Mr. Judge suggested the company might be able to take advantage of some short cuts that would allow it to start earlier.

The encouragement

De Beers tested over 24,000 tonnes of kimberlite from Canastra-1 several years ago and recovered over 5,000 carats, which suggested the pipe might have a grade of about one-quarter carat per tonne. Brazilian Diamonds believes the diamonds in the pipe could be worth about \$200 (U.S.) per carat, and if it is right, the rock would be worth about \$50 (U.S.) per tonne, a princely sum in low-cost Brazil.

Unfortunately, the pipe is small, covering about one hectare at the surface. The current expectation has Canastra-1 containing about 115,000 carats, contained in roughly 500,000 tonnes of kimberlite. The company's preliminary plan calls for it to mine the rock over four years, which points to annual production of just under 30,000 carats per year.

Brazilian thinks the little mine would cost under \$1-million (U.S.) to build and with costs running at about \$15 (U.S.) per tonne, operating expenses of less than \$2-million (U.S.) would be considerably less than the potential \$6-million in revenue. The ultimate key to the play may be Canastra-8, a 20-hectare pipe with unknown diamond potential. The company hopes it can start exploring with deep core drilling next year, once the park issue is settled.

Brazilian closed up a penny to 11 cents Wednesday on 11,600 shares.