

Shore Gold

Mining

21 August 2013

Investment summary: The EIS progresses

On 14 August 2013, Shore Gold announced that the Environmental Effects Summary document has been prepared. It is available for public review and comment for 30 days. After this, the authorities will prepare a Comprehensive Study Report. The timetable is still not clear, but it is possible that the company will be in a position to apply for permits from the minister by the end of the year.

Substantial reserves and quality diamonds

The probable reserves based on NI 43-101 were published in the Feasibility Study of August 2011. These show substantial ore reserves of 279Mt with a grade of 12.3 carats per 100t (cpht) to give 34.4Mct at an estimated weighted average price of US\$242/ct. The feasibility study shows a mine life of 20 years with an NPV at 7% after tax and a royalty of C\$1,272m. This gives an IRR of 13.7% and a payback of 5.3 years. Shore Gold is hopeful that the coarse size distribution suggests the occurrence of +100ct diamonds once production commences. The largest stone so far from the Star deposit was 49.5ct and from Orion South, 45.90ct. The company also anticipates there will be a high proportion (over 25% above 2.7ct) of Type IIa diamonds. These occur naturally in around 2% of gem diamonds, have no measurable impurities, are generally colourless and tend to command higher values. Meanwhile, the diamond market remains strong.

Two immediate hurdles

Shore Gold has essentially completed its work on the Environmental Impact Statement (EIS). The company must wait for the final review and approval, which is now in the hands of the federal ministry. It must also raise cash to fund the development of the mine. The pre-production capital cost of the project is estimated at C\$1,900m with a total capital cost estimated at C\$2,500m over the life of the mine. It is currently expected that there will be a four-year construction period. This is partly due to the need to remove 30 metres of sand and clay overburden. The company hopes it will be possible to remove the clay with greater ease and speed than previously thought.

Valuation: NPV at 7% of C\$1,272m

Once the company has acquired its permits, the future should be clearer. With the share price at C\$0.165, Shore Gold has a market cap of C\$37m. This compares with the company's estimated NPV at 7% after tax and royalty of C\$1,272m and C\$1,900m for the capital cost. Meanwhile, the six months to June 2013 showed a net loss of C\$3.1m, with cash of C\$5.8m as at 30 June 2013.

Historic financials

Year end	Revenue (C\$m)	PBT (C\$m)	EPS (C\$)	DPS (C\$)	P/E (x)	Yield (%)
12/11	0.22	(220.1)*	(0.98)	0.0	N/A	N/A
12/12	0.17	(9.3)	(0.04)	0.0	N/A	N/A
12/13e	N/A	N/A	N/A	N/A	N/A	N/A

Source: Shore Gold. Note *After C\$208m charge (2012) for impairment of exploration assets.

Price **C\$0.17**
Market cap **C\$38m**

Share price graph



Share details

Code	SGF
Listing	TSX
Sector	Mining
Shares in issue	224.74m

Business description

Shore Gold is a Canadian natural resource company focused on exploring and developing diamond resources in Saskatchewan. The company is currently advancing the FALC-JV and Star Diamond project in the Fort a la Come forest in central Saskatchewan.

Bull

- Potential for significant diamond production over a 20-year life, with indications of diamonds of good quality and size.
- Possible extension of mining life.
- NPV at 7% of C\$1,272m.

Bear

- The revised EIS needs to be approved and the permits issued.
- The company must raise C\$1,900m for pre-production capital expenditure.
- The company appears to have sufficient cash for just under 12 months on its current spending trend.

Analysts

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