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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Dominion Diamond Corporation's FY16 first quarter earnings results conference call. My name is Julie, and I will be your operator for today's call.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes.

I'd now like to turn the call over to Richard Chetwode, Vice President Corporate Development and Head of Investor Relations. Please go ahead, sir.

Richard Chetwode - *Dominion Diamond Corporation - VP, Corporate Development and Head of IR*

Thank you, operator. Good morning, everyone, and welcome to our FY16 first quarter earnings results conference call. On the call today is Brendan Bell, Acting CEO; Ron Cameron, Chief Financial Officer; Chantal Lavoie, Chief Operating Officer; Jim Pounds, Executive Vice President Diamonds; and Elliott Holland, Vice President, Jay Project and Business Development, all of whom will be available to answer questions after the presentation.

Before we begin, I'd like to point out that this conference call will include forward-looking information. Various material factors and assumptions were used in arriving at this information and actual results could differ materially. Additional information about these factors and assumptions and the risks that could cause actual results to differ materially from our current expectations are detailed in our most recently filed annual information form and MD&A which are publicly available. Our most recent results also include a reconciliation of certain non-IFRS financial measures to the most directly comparable IFRS measures.

With that, I'll hand the call over to Brendan Bell.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Thanks, Richard. And good morning, ladies and gentlemen. Welcome to the earnings call for the first quarter of our financial year 2016.

We just paid a $0.40 per share dividend and as you know, the Board has initiated a semiannual dividend moving forward. We have a strong balance sheet and we're well-positioned to fund the pushback at Misery Main, the first stages of construction at Lynx, the waste-stripping of Pigeon, construction of A21 and Jay, of course. The long-term supply demand fundamentals for diamonds remain positive, even though rough diamond prices have remained flat since January of this year.

Let me move straight on to our Q1 results. FY16 is and was to be a transitional year for the Ekati Diamond Mine. When we bought Ekati in 2013, we understood the cash flow generated from operations would be used primarily to fund the Misery pushback in order to access the very high value Misery Main pipe ore which we expect to begin putting through the process plant next year.

Ahead of Misery coming onstream, this was a year when we would process larger quantities of lower value and therefore lower margin ore as you will have seen from the Ekati mine plan. However, in the first quarter of this year, we've also encountered some additional short-term challenges both at Ekati and Diavik. At Ekati the conveyor breakdown at Koala Underground in December and the unplanned downtime with the high-pressure grinding rolls in the first quarter negatively impacted gross margins.

Likewise, lower-than-planned recoveries at Diavik in the fourth quarter of last year impacted gross margins at Diavik in the first quarter. So Chantal will provide you with a production update about what's happening at Ekati and Diavik, as well as a progress report on some of our new developments.

Ron will talk to you in more detail about the impact on gross margins. Elliott will update you with respect to our progress on Jay and Jim will then talk about the diamond markets. I would then like to conclude with some comments about our overall business and then we'd like to take your questions.

With that, let me hand things over to Chantal.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Thank you, Brendan, and good morning, everyone. Let me start by talking about what is happening at Diavik. Processing in the first quarter was lower than planned due to unplanned down time for repairs and modification to the process plant primary crusher. That is now all completed.

Carat production was also impacted by higher than planned dilution. However, the lower processing didn't stop the mining of ore and the result was a buildup of a small stockpile of ore and from the plant which will now be processed. Given that this year's mine plan didn't have the plant operating 100% capacity, the plant will catch up and process these tons over the rest of the year. So there is no expected change to this year's mine plan or total processing throughput for the year.

At Ekati, we also had some challenges during the first quarter. On the processing side, damage to the high-pressure grounding rolls required additional unplanned down time to affect repairs. This had an impact on the volume of ore we were able to put through the plant. In May, as part of our major annual planned maintenance shutdown, we installed brand-new rolls, made some processing improvement, and implanted new processes and procedures to ensure this type of damage would not happen again.

As well, we also used this time to perform work on other major components such as the cone crusher and plant conveyors. We're also in the process of completing our initial engineering study for the addition of a fine dense media separation module, what we call a DMS. The fine DMS module could potentially allow us to recover significant quantities of diamonds below our current one millimeter cutoff, therefore, extracting further value from the ore.

Finally, we have just employed a new process plant manager and processing superintendent who, respectively, bring 26 and 15 years of experience in diamond processing. They are already introducing some interesting ideas.

Surface mining activities were impacted by unusually extreme winter conditions, but we prioritized waste stripping to ensure that the Misery Main ore release remains on schedule. You may recall that as a result of the Koala underground conveyor belt failure we had to process a substantially higher-than-planned tonnage of Misery Satellite plant feed in order to make up for the resultant shortfall.

Both of these events involved a movement of equipment from Pigeon Pipe to Misery. The results were waste stripping at Pigeon fell behind schedule. However, a new excavator was commissioned in May of this year to ensure that ore release from Pigeon will remain on schedule for later this year.

We still expect to see Pigeon first ore being processed in Q3 of the year. As soon as we start processing a reasonable amount of Pigeon ore we plan to significantly reduce the amount of low value coarser rejects we currently process. Finally, we made some good progress with underground production during the quarter, being slightly ahead of plan and we believe we are on our way to recover the shortfall of Q4 FY15.

Now let me just give you a quick update on some of the other work we're doing at Koala Underground, Lynx, Sable and A-21 at Diavik. At A-21 construction team is in place, the management has made some significant progress on the negotiation with major contractors and we have begun crushing aggregates for the dike. Development of A-21 is progressing as per schedule and on budget.

In May we started core drilling at depth at Koala Underground. The results from this will allow us to make a decision later this year on the potential to deepen Koala Underground by two more levels in what is higher grade Phase 6 and 7. We're confident on the grade and the carat value of the ore body at depth but are investigating the volume available below the current limits of the mine plan, something we'll come back to you on.

In May we also began construction of the road to the Lynx Pipe. All the necessary construction permits have already been obtained. Earlier this month we received confirmation from the Department of Fisheries and Ocean Canada, that consultation on our fish-out and fish-offsetting plans for Lynx Lake, a small lake sitting atop of the Lynx Pipe, was approved. This summer, community members will conduct a fish-out of the Lynx Lake, following by the dewatering of the lake in Q3 FY16.

I expect prestripping to begin towards the end of FY16, followed by waste stripping in FY17, with ore production in Q4 of FY17. The granite which constitute the Lynx waste rock will be hauled to a laydown adjacent to the Misery Row where it will be stockpiled for construction of the Jay Row laydown paths and dike.

At Sable we've just recovered 1,500 tons of ore as part of the bulk sample drilling program. The ore from seven out of the eight drill holes has been now processed through the Ekati sample plant and the remainder will be processed later this month. The results of the subsequent analysis will form part of the economic evaluation and the prefeasibility study, which has already commenced.

This year we have a lot to do at Ekati. Last year we moved 23 million tons of ore and waste. This year we plan to move 27 million tons. Although we have had challenges in the first quarter, I believe we have taken the right corrective actions to minimize their impact on operations moving forward. Thank you. Now over to Elliott to talk about the Jay project.

Elliot Holland - *Dominion Diamond Corporation - VP, Jay Project and Business Development*

Good morning and thank you, Chantal. At Jay we finished all of the drilling programs that I talked about during our last earnings call by the end of April. As I mentioned then, the availability of additional rig time following the drilling of the Sable pipe enabled us to also drill eight holes in the Jay ore body at a 22- to 24-inch diameter to a depth of approximately 300 meters.

We collected an additional reverse circulation sample of roughly 1,500 tons. Once the processing of the Sable bulk sample has been completed, we will then process the Jay material through the Ekati sample plant. The results of the subsequent analysis will inform the feasibility level design of the Jay project.

The hydrogeological and geotechnical drilling programs at Jay were also completed successfully and we are in the process of interpreting the results. The hydrogeological results are still being analyzed, but initial indications are that there were no negative or unexpected structures encountered that might increase expected water management costs.

The geotechnical drilling program was primarily designed to establish the depth of the competent soil and bedrock under the proposed dike and to establish the optimal route for the dike, choosing between the prefeasibility design and a number of small deviations to that routing that could either shorten the overall dike length or reduce the depth and, therefore, volume of the dike. Once again, the initial results seem positive and that could mean potential savings, but we have a lot of engineering work to do before we can determine the ultimate impact and construction cost.

Now that the drilling season is complete, feasibility level engineering is in full swing, including updates to the design of the dike, the pit and supporting infrastructure as well as the mine plan. We have sent out requests for proposals to suppliers for initial construction requirements, such as the initial heavy mining equipment fleet and have started the procurement process for a number of other long lead time items.

Permitting is proceeding according to the schedule. Since our last conference call, we held the technical sessions in Yellowknife and we have completed all of the required undertakings assigned during those hearings on schedule. We are currently responding to the second and final round of information requests from interested parties.

After that, the review board will receive and we will respond to intervening filings from these parties. The last major opportunity to submit evidence in the process is during the public hearing scheduled to take place between September 14th and 19th. The public record closes on October 30th, after which the review board will have the opportunity to consider all of the evidence and submit a decision and report of environmental assessment to the Minister of the Environment for the Northwest Territories.

We have been working with the review board to compress these time lines wherever possible, so we are pleased to see that in the schedule issued in May they have moved up their forecast for their final decision to January 2016.

A decision by the Minister is anticipated in early calendar 2016. Once this decision is issued, we expect the water license and land use permitting process to take approximately a further six to eight months. We will apply for an interim land use permit to allow us to start road construction ahead of receipt of the full permit which has been common practice for other recently permitted lines in the area. This permitting time line keeps us in line to deliver ore in calendar 2020 as outlined in the Ekati technical report.

Let me now hand the call over to Ron.

Ron Cameron - *Dominion Diamond Corporation - CFO*

Thank you, Elliott. Good morning, ladies and gentlemen. You have read the press release and it is not my intention to repeat in detail what is already published. I'd like to focus on three key areas to try and give you some further insight. These are the gross margins, cash flows, including tax payments and the Diavik reclamation bond.

Let me therefore first turn to the Q1 margins. Both Diavik and Ekati have had a very substantial portion of their costs fixed because of their remote locations. Therefore, when production is below plan, you can expect to see an impact in the next quarter's sales and margins because of the time lag from production to sales.

Diavik's gross margin in Q1 was 17.6% and was compressed by the lower production in Q4. And as Chantal suggested earlier in the call, tons processed in Q1 were also lower than expected, but because mining continued and a stockpile of ore was built up outside the plant, that stockpile can now be processed alongside the newly mined ore, so we would expect better margins in the second half of the year.

Likewise, at Ekati, the lower production value as a result of the conveyor belt failure in December and January, combined with lower production as a result of the HPGR issue, will impact margins through into the second quarter. We will expect better margins in the second half of the year, but because of the weaker ore mix as per the mine plan, we do not expect gross margins to return to the levels we saw in Q3 and Q4 of last year. As Brendan said, this was always expected to be a transition year for Ekati.

You will also note in the press release that we had a negative free cash flow of $93 million for the quarter. And just to give you some insight into this, in the Q4 MD&A we reported $105 million of income tax payable, mainly from last year's good results.

In Q1, we paid the bulk of our corporate income taxes and the NWT royalty for Diavik. The Diavik royalty payment fall into our first fiscal quarter purely because Diavik has a calendar year-end, while the NWT royalty for Ekati happens to fall into the second quarter, because Ekati has a January 31 year-end.

As we have said in the press release, the second quarter will include approximately $9 million for that Ekati royalty payment. During the quarter we also paid approximately $4 million for the Misery royalty during Q1 2016, leaving only $6.5 million of that royalty remaining to be paid. We also spent $65 million of CapEx, net of capitalized depreciation, and you will see at the back of the press release the table breaking down the expected full-year capital expenditures we have this year by development project.

Having mentioned Misery, it is also worth noting that depreciation at Ekati was higher this year than the prior year as a result of the Misery satellites moving into commercial production in the third quarter of last year. And therefore there is now a depreciation charge coming from Misery where there wasn't in the prior year.

With regards to the Diavik reclamation bond, we anticipate posting our share of that bond in the second quarter in the form of an irrevocable letter of credit. In other words, a letter of credit backed by cash.

Thank you. And let me hand you over to Jim.

Jim Pounds - *Dominion Diamond Corporation - EVP, Diamond Sourcing*

Thanks, Ron. And good morning, ladies and gentlemen. And welcome from Antwerp where Bob Gannicott and I have been attending our second sale of the second quarter. As you know, we hold 10 sales a year, two in the first and third quarters, and three sales in the second and fourth quarters.

Rough prices have been flat since the end of January and as we have seen for the last two years, demand for high quality diamonds of all sizes remains weak. But there is positive demand for what we call commercial diamonds, these diamonds that go into the classic and American bridal jewelry. Also, thanks to a planned reduction in manufacturing capacity, there has been a considerable drawdown in what, at the beginning of the year, were substantial stocks of polished in the pipeline.

I attended the JCK Las Vegas trade fair recently, which is the largest jewelry trade fair in the world, and invariably sentiment there sets the tone for the rest of the year, most certainly in the US. It is predominantly an American show and it was evident that demand for both finished jewelry and loose polished diamonds was ahead of expectations. So that was because these expectations were somewhat muted. You will have seen the Cygnet and Zales and Tiffany's recent results. The US looks to be growing at a steady rate.

Sales of diamond jewelry in Hong Kong remained challenging but we continue to see growth in the gem set jewelry sales in mainland China. India appears to have turned a corner from two-and-a-half years of declining consumption, which is more a reflection of overall economic malaise, rather than challenges to the diamond jewelry industry.

Sights now are firmly set on the fourth quarter of the year. In the US, the fourth quarter accounts for approximately 40% of retail demand. In China, the strongest period of Chinese retail demand occurs between Chinese Golden Week, which takes place at the beginning of October, to the Chinese New Year in February.

In India, jewelry purchases are geared towards the Diwali Celebrations in November and continue into the wedding season through to February. So the end of the year in these markets, the jewelers need to have diamonds in the jewelry, in the store, for that concentrated sales period.

So in broad terms, the latest date a manufacturer can take a rough diamond, polish it, set it in jewelry and have it in the shop in time for that fourth quarter, important fourth quarter, is really about July. That's why we've seen the pull-through in the polished stock.

I'm also very pleased to report that the launch of our online business-to-business CanadaMarket trading platform at the Las Vegas show received a lot of interest. This business-to-business e-trading platform hosts a large inventory of Canada-marked diamonds from our approved manufacturers and distributors and allows diamond jewelry wholesalers and retailers to easily source Canada-marked polished diamonds.

The awareness of the Canada mark has definitely grown since we launched an invigorated marketing campaign and educational programs earlier this year, targeting the all-important millennial customers in the US and Canada, largely through social media channels.

Thank you, and I'll now hand you back to Brendan.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Thanks, Jim. On the plus side of Ekati last year we introduced some changes to the process plant that resulted in improved recoveries but there's still more to do. We also got a substantially higher grade than anticipated at Koala Underground which was mostly because we recovered more of the very high grade Phase 6 ore than we had originally planned, but it's unlikely that that will continue to the extent that we saw last year.

Overall, diamond recovery is still a positive for us. The challenges of Ekati have not been about recovery, but about throughput and, therefore, tonnage and we're very focused on getting this right.

We've talked in past calls about our cost and operational improvement project we call Evolving Ekati. This team is now completely focused on improving throughput and availability in the process plant.

But we're also focused on our long-term future, the Jay and Sable Pipes. Work continues on both, opening up the potential of developing not just Jay but also Sable. The decision by Rio to progress with A-21 means that we can expect Diavik to generate a substantial amount of cash in the early years of Jay.

In conclusion, I would reiterate that this is a year that was going to be transitional. We've had some additional operational challenges, but we are confident that we can meet them. Thank you very much for listening and we now welcome your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Please stand by for your first question. And it comes from the line of Des Kilalea, RBC.

Des Kilalea - *RBC Capital Markets - Analyst*

Thank you very much for the conference call.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Good morning, Des.

Des Kilalea - *RBC Capital Markets - Analyst*

Hi, guys. The first is on pricing and maybe just get some idea from Jim as to what's happening on Chinese demand and pricing right now? As you say, China looks a little bit better than Hong Kong, but are the Chinese buyers being quite aggressive in looking for polished and therefore, rough?

And then just a question on Sable. I wonder -- I don't know if it's possible to give us any views on what you expect from the Sable drilling program yet and maybe just some definition of what Sable looks like at this early stage? Thank you.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Why don't we take the first one first, Jim?

Jim Pounds - *Dominion Diamond Corporation - EVP, Diamond Sourcing*

Yep. Okay. Definitely, Des. As you know, Hong Kong has been disappointing because the mainland retail clients haven't really got it up to the normal numbers and with a certain urgency for buying that they used to have. But we have seen Chinese gem-set jewelry in terms of same-store sales go up by 4% to 5% this year.

So the Chinese are taking a little bit of a wait and see attitude in terms of their restocking at world merchandising at a polished level. So they have stood back and let really the USA get on with it. However, of course, we're now, with Las Vegas behind us, the next focus will be on the Hong Kong show in September. And I think at that point the Chinese market will hopefully get back in there, remerchandise their stores and get the polished moving.

Des Kilalea - *RBC Capital Markets - Analyst*

Thanks, Jim.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

And I guess a successful drill program at Sable. Chantal, you want to talk a little bit about that and the ETA for results?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Yes. Good morning, Des.

Des Kilalea - *RBC Capital Markets - Analyst*

Good morning, Chantal.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

First, the goal for the drilling program was to obviously confirm grade, but more so the value associated with the Sable goods. That was the first intent of this program. Like I said earlier, we've got seven of the eight [holes] samples processed. We're in the process of finishing the last one.

Then Jim's team will be giving us -- re-evaluating the goods and these results will basically be used to update our prefeasibility study we expect to complete sometime early in the fall. From that point, we'll be able to make a decision on the way forward with Sable.

And assuming all the stars align, we would possibly be in a position to start work sometime next year in Sable for a few years and with Sable possibly becoming kind of the stopgap measures between the existing mine plan, the existing ore bodies and the beginning of Jay production. So that's high level the intent versus the intent of the program and the plan moving forward.

Des Kilalea - *RBC Capital Markets - Analyst*

Chantal, just on Sable, are there any indications that you can give us that you're certain about on size or volume yet? Is it too early to even think about that?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

It's a bit early. I would say -- the only thing I could say right now, so far the results we've got seems to confirm our assumptions around Sable. It's promising.

But again, until Jim's team has performed evaluation, which is obviously very, very important, it's difficult for us to finalize kind of what Sable would look like. But at a high level, if you look at the 43101, Sable is a pipe that's about the same size as Pigeon, slightly bigger, so you could high level assume it could sustain similar production rates.

Des Kilalea - *RBC Capital Markets - Analyst*

Thank you.

Operator

(Operator Instructions)

We do have another question and it comes from the line of Edward Sterck and he's from BMO. Please go ahead, sir.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Good morning, Ed.

Edward Sterck - *BMO Capital Markets - Analyst*

Hello, gentlemen. Good morning. Just a quick question on the conveyor at -- the underground conveyor. In the news release it doesn't say whether that's been fixed yet. I presume it probably has been.

And then a follow-up question on the letter of credit which you mention is cash-backed. Does that mean it restricts the cash on your balance sheet or is it just backed by the cash and balance sheets of the provider of the letter of credit?

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

First, the conveyor is fixed. Chantal, do you want to talk about what happened there and where we are now?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

I think what happened, in December -- it's a very, very long conveyor, it's about 2-kilometers of belt, the conveyor itself is over 1.1-kilometers. It was the belt that failed essentially and required to replace a significant part of the belt. This was fixed and put back into operation by the third week of January. So we're back up and running.

Like I mentioned earlier, I think already after one quarter we're in the process of recovering the shortfall in tonnage. So pretty much everything's in place now.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

And the LOC, irrevocable LOC restricting cash, Ron, do you want to give an explanation of that?

Ron Cameron - *Dominion Diamond Corporation - CFO*

Sure. LOC would be supported by cash on our balance sheet, hence you would see it as restricted cash.

Edward Sterck - *BMO Capital Markets - Analyst*

Thank you. And then just one follow-up question. Obviously there's a lot of things going on at the moment. I think if one looks ahead, what are the -- what's the time line for news releases around all of these events, potential catalysts that investors should be looking out for in terms of when they'll be -- roughly when they'll be announced publicly to the market?

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Let's first maybe start with the drill results from Sable, because that's probably the next announceable milestone. Chantal's just sort of indicated how we're proceeding in that respect. But we expect to have that information firmly in hand by Q3. Elliott, do you want to talk about sort of what follows on from there on the Jay?

Elliot Holland - *Dominion Diamond Corporation - VP, Jay Project and Business Development*

On the Jay side, the Jay sample will be processed after the Sable sample. So there will be a lag of a number of months after the Sable results are known.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Ed, look, at the risk of getting too far ahead of ourselves here, we're quite confident on Sable. We're quite optimistic that this, in effect, becomes a Jay/Sable project. We've got to prove it. We've got to see the drill results and we have to confirm this.

That's our hope that that eventually -- these two things dovetail and that's the go-forward project. There's a lot of work here to be done and we don't want to jump the gun in that respect.

Edward Sterck - *BMO Capital Markets - Analyst*

Brilliant. Thanks very much.

Operator

Thank you for your question. We do have another question, and it comes from the line of Brian McArthur from UBS. Please go ahead, sir.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Hi, Brian.

Brian MacArthur - *UBS - Analyst*

Good morning. Just can you go over the CapEx for Ekati, fourth quarter was $165 million. Now it's $214 million. But Jay exploration's gone down by [$27]. You've given us a good table here with lots of detail.

Can you just go through what the delta is between that $165 million and $214 million? Is it the change in just accounting for the capitalized exploration on Jay? It looks like Misery went up a bit. Just what's going on there? And whether all you're really doing is bringing CapEx on the project forward?

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

That's exactly the case, Brian. But why don't we have Ron take you through it. I'm glad you asked. It gives us a chance to clear this up.

Ron Cameron - *Dominion Diamond Corporation - CFO*

That's right. And Jay is a big part of that. And with the declaration of reserve, we're able to capitalize certain costs associated with the project. The remainder of that delta, we believe just to be primarily timing in terms of the projects.

Brian MacArthur - *UBS - Analyst*

Okay, so the capital hasn't changed on Jay as you see it right now?

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

There's no overruns. There's no blow-out here. This is moving it from one bucket to another in terms of how we display the expenditure.

Brian MacArthur - *UBS - Analyst*

Perfect. Thank you.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Thank you.

Operator

Thank you for your question. Now I'd like to turn the call over to Mr. Brendan Bell for closing remarks. Please go ahead, sir.

Brendan Bell - *Dominion Diamond Corporation - Acting CEO*

Yes. Well, thank you all for joining the call. Any follow-up questions can be addressed to Richard or to Kelly, whom you know, and we will look forward to taking you again through the report of the FY16 second quarter results fairly soon. Thank you very much.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.