

FINAL TRANSCRIPT

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HW.TO - Harry Winston Diamond Corporation and Kinross Gold Corporation Conference Call

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CORPORATE PARTICIPANTS

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Harry Winston Diamond Corporation - Chairman, CEO

Ty Burke

Ken Ross Corporation - President, CEO

CONFERENCE CALL PARTICIPANTS

Irene Nattel

RBC National Markets - Analyst

David Stein

Cormark Securities - Analyst

John Bridges

JP Morgan - Analyst

Victor Flores

HSBC - Analyst

Paul Burchell

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Haytham Hodaly

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- Private Investor

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PRESENTATION

Operator

Welcome to the conference call hosted by Harry Winston and Kinross Gold Corporation. The purpose of this call is to discuss the announcements that were made today by both companies. Please refer to the respective Company's web sites to access copies of these press releases. With us today, we have Bob Gannicott, Chairman and Chief Executive Officer of Harry Winston, and Ty Burke, President and CEO of Kinross Gold Corporation.

Please note that certain statements made on this call today may contain forward-looking information and actual results may differ materially from the conclusions or projections in that forward looking information. Refer to the press releases regarding

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the transaction and to each Company's public disclosure record for additional information on the relevant risk factors and assumptions relating to the forward-looking information and material information regarding their respective businesses. I will now turn the call over to Mr. Gannicott. Sir, you may proceed.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Thank you. Good afternoon, all. Thank you for joining us on such short notice. We at Harry Winston are pleased to announce that Kinross Gold is making a \$150 million US strategic investment in our business. Further details are contained in the press release. But at a high level, Kinross has agreed to subscribe for \$15.2 million treasury shares of Harry Winston Diamond Corporation, a price of \$3 U.S. per share.

In addition, Kinross has subscribed for new partnership units that will represent a 22.5% interest in the limited partnership that, in turn, holds Harry Winston's 40% joint venture interest in the Diavik diamond mine. The net result post closing is that Harry Winston receives \$150 million in cash and Kinross owns approximately 19.9% of Harry Winston Diamond Corporation shares, as well as a 22.5% interest in the Diavik limited partnership.

This investment will strengthen Harry Winston's balance sheet and is a great endorsement of the fundamentals of our business by a major gold mining company. It also provides an important strategic relationship for Harry Winston as the two companies have agreed to jointly consider future diamond mining investment opportunities on a case-by-case basis. I'll now hand it over to Ty to make a few comments as well.

Ty Burke - *Ken Ross Corporation - President, CEO*

Thanks, Bob. At Kinross, we believe this is a win-win deal that represents an excellent strategic investment opportunity for Kinross investors and repositions Harry Winston on a stronger financial footing. We followed the diamond industry in Canada for some time and felt it was a good time to make an investment in both Harry Winston and the partnership that holds the Diavik diamond mine in Canada's Northwest Territories. We believe that Diavik with its long life, high grade ore, high margins and top quality diamonds is truly one of the world's best mines. As well as it has been operated successfully since 2002 by Rio Tinto, an operator who we respect and see as a world-class mining company.

Of course, Harry Winston will continue to market all of the partnership's share of diamond production from the Diavik mine, including the portion attributable to our interest. In essence, this strategic investment gives Kinross a share in the cash flows from the Diavik partnership, as well as a 19.9% equity investment in Harry Winston, a premiere company in the diamond business. We also have a seat on the Harry Winston Board of Directors.

In addition, we believe that the diamond industry is complimentary to our core business of gold mining in many respects. Mining techniques and geographic locations of diamond mines are very familiar to Kinross and similar to that, of many of our gold mines. Diamonds, like gold, we see as a storehouse of value and pricing has historically responded well in an inflationary environment. The two industries also share a common end use in jewelry and, of course, the equities trade at gold type multiples when markets are strong. This investment is directly in line with our strategy of creating value through mining and it is both accretive and tax effective for the Company.

We look forward to a successful future with Harry Winston and the Diavik diamond mine partnership.

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QUESTIONS AND ANSWERS

Ty Burke - Ken Ross Corporation - President, CEO

Now, we would like to open the call up for questions.

Operator

(Operator Instructions). Your questions will be taken in the order received. Your first question is from Irene Nattel with RBC National Markets.

Irene Nattel - RBC National Markets - Analyst

Thanks, and good afternoon, gentlemen.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Hi there.

Irene Nattel - RBC National Markets - Analyst

With this \$150 million cash infusion, do you now feel comfortable that Harry Winston has the cushion it requires to get through the coming challenging, whatever long it takes, 18, 24, 36 months?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Yes, we do. Obviously, the future isn't very clear for anybody. So, we're very pleased to have what does represent a cushion going forward. There are still the upcoming changes to the Diavik mine plant, I'm sure, as we go through the rest of the year. We know that there has to be flexibility there to cope with the changing environment as well. We do also see a little bit of light in the diamond pipeline at the moment. Actually, there has been some -- some modest demand for some of the items appeared just recently in the last two months.

Irene Nattel - RBC National Markets - Analyst

That's great. Thank you.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Thank you.

Operator

your next question comes from the line of David Stein with Cormark Securities. You may proceed.

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David Stein - Cormark Securities - Analyst

Thank you. First, on the partnership, will the -- will Kinross' share of the dividends I guess, would that come before paying back the debt that you're paying back on the mine?

Ty Burke - Ken Ross Corporation - President, CEO

No. If you're talking about dividends on the equity, I believe the press release says no. But our share of the cash flows will be at the partnership level. So, that is, of course, separate from the debt.

David Stein - Cormark Securities - Analyst

Okay, yes, I just wanted to make sure of that.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Can I just clarify the debt is to be retired as part of this transaction related to this transaction.

David Stein - Cormark Securities - Analyst

Okay. Thank you. And then is there any extraordinary kind of CapEx expected at the mine? I guess just for us gold guys who aren't maybe as familiar with the mining itself, anything sort of going on there that would prevent the regular payment of Kinross' interest over the next couple of years expected?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

No. The mine is going through a phase of developing the underground portion of the ore bodies. Most of the expenditure required to achieve that we spent last year, but there still is some significant expenditure in front of us. It was to have all been completed this year. Some of it, most of it will be deferred for a year because there's plenty of open pit capacity, but there are no sort of extraordinary expenditures that are anticipated.

David Stein - Cormark Securities - Analyst

What would be the CapEx budget for the mine overall for let's say the next two years then?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

It is under revision at the moment. Where Rio Tinto completed their first quarter revisions of their mine plan at the end of this month. And so we'll have some visibility of that by the time we announce our year end and first quarter results, sorry, last quarter results. On April 2nd.

But they -- that plan will clarify the expenditures for the balance of the year. But we don't expect any -- certainly, no increases in capital expenditure and we expect to see some reductions.

David Stein - Cormark Securities - Analyst

Okay. Great. And then Ty, just wondering, could you maybe give us some detail on how the transaction is tax efficient?

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Ty Burke - Ken Ross Corporation - President, CEO

Well, thanks. Two ways. One, of course, we have historical operating losses from what I would consider prior years that we are not able to use because, of course, we don't have taxable income in Canada these days. And secondly, we do have head office expense here in Canada. So once the CapEx that Bob referred to is accounted for, then we'll be able to start using the income against our losses and expenses.

David Stein - Cormark Securities - Analyst

Okay. Last thing quickly. Were there any slides or anything that came out with this call? I'm only on audio call.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

There wasn't a slide deck that came out with the call, but we're putting together an information package that we can both use going forward from here.

Ty Burke - Ken Ross Corporation - President, CEO

Of course, there are the two press releases.

David Stein - Cormark Securities - Analyst

Okay. Thank you very much, guys.

Operator

your next question comes from the line of John Bridges with JPMorgan. You may proceed.

John Bridges - JP Morgan - Analyst

Hi, guys. Mixed questions. I see a third quarter report for Harry Winston. Is there a fourth quarter? When do you expect to see a fourth quarter out?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

It is on the bottom of the press release. If you note it's on April 2. Fourth quarter and, of course, year end.

John Bridges - JP Morgan - Analyst

We're a bit behind the curve here. So, sorry, what date did you say?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

April 2nd.

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John Bridges - JP Morgan - Analyst

Thank you. Ty, what sort of rate of return are we looking at on this investment? Without seeing the partnership accounts, it is difficult to know what money is coming in from this.

Ty Burke - Ken Ross Corporation - President, CEO

Of course, we don't usually speak to rates of return, John, but a couple of thoughts. One, you know we have a basic interest in the cash flow and that's coming up through the partnership and then so that will have a rate -- cash on cash return. Then the equity investment stands on its own two feet. We think that there's significant potential for Harry Winston stock to recover, especially in contemplation of future diamond shortages and potential economic recovery.

So, I think we should leave it as saying we think this deal is both tax effective, as I mentioned, and quite accretive on both NAV and cash flow per share for our investors. But we prefer not to give an IRR. Of course, we need to see the final capital plans and mine plan that Bob referred to earlier.

John Bridges - JP Morgan - Analyst

Right. What was the previous underground capital plan? What did have to be spent?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Well, there have been several iterations of it, but it started off as a \$400 million plan approximately some years ago. It then went up to about \$875 million, of which more than half has already been spent. And with the more than half completed as well.

In other words, there hasn't been any overrun in budget -- now, I believe it is very likely that the time line will be pushed back because there is ore available still in both of the open pits until 2012. So, there's open pit muck available until 2012. Allows the completion of the underground to be pushed out by a year and I expect that that will be adopted.

John Bridges - JP Morgan - Analyst

Okay. That's helpful. Thank you, guys.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

There will be more clarity, as I say, after we turn the end of the month.

Operator

Your next question comes from the line of Victor Flores with HSBC. You may proceed.

Victor Flores - HSBC - Analyst

Thanks. Good afternoon. Ty, if you will allow me to just play devil's advocate for a second here. You're buying essentially a 9% interest in a mine that's consuming cash, not generating cash. And you're paying \$3 a share for stock that I can go out and buy for \$1.90. Can you just give us a bit more detail on how the transaction is accretive to NAV and cash flow.

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Ty Burke - Ken Ross Corporation - President, CEO

A couple of comments, Victor. Listen, we wouldn't expect you to do anything other than play the devil's advocate.

Victor Flores - HSBC - Analyst

You knew it was coming.

Ty Burke - Ken Ross Corporation - President, CEO

That's right. A couple of thoughts. One, from an asset purchase perspective, you have to look at the overall NPV of the mine to decide. Every analyst on the phone will have a view of that as, of course we do. When we looked at that and think about the value for our world-class asset, you have to use long-term pricing. You have to use long-term view of capital and a long-term view of cash flows.

My quick response on that is when do you buy significant interest in a world-class asset when it's available and, hopefully, at an attractive price, and we believe that's what's happened here. The equity investment, of course, is from our perspective is relatively smaller compared to our cash balances and cash flow.

On the other hand, we think there's tremendous leverage in the equity price. And the Harry Winston share price, if I can say it and I mean it in all sort of clarity, it has been pushed down dramatically by the credit issues in capital markets and by the current consumer situation. So, we think it is trading at a significant discount to NPV. And candidly, reading consensus on the street, so does most of the street. We think that that's why it is accretive to NPV and ultimately to cash flow.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Do you mind if I -- one comment there. This mine enjoys a very strong position in what could be in conventional mining regarded as a cost curve. It is one of the lowest cost producers of \$100 worth of diamond product in the world. And even at these very depressed rough diamond prices that exist in the market place at the current time, it is still significantly cash profitable.

Victor Flores - HSBC - Analyst

Great. Thanks. If I could just ask a follow-up based, Bob, on your comments. Maybe you could give us a bit of insight into the current state of the diamond market and where you expect to go forward for those of us that are less familiar with it.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

I understand. Diamonds, unlike -- gold is sort of the ultimate simple commodity. Diamonds are really the ultimate complicated commodity, despite the fact they share privileged sort of positions of being stores of value and so on. So, the diamond market but I talk in generalities, here you have to realize they are there. And anyone can drill down below that. But the way that we see it is the uptake of polished diamonds, almost half of which are sought on a value basis, almost half of the diamonds that are sold in the world are sold for what is described in the trade as bridal purposes, in other words, engagement rings or their equivalent in other cultures, which is a very strong underpinning.

People do not stop getting married in bad times. So, the diamond market, we see the polished diamond market is perhaps being down about 20% at the moment from its peak. That, though, is because of the deleveraging and the chain that's been forced by the lack of the credit that normally supports the diamond pipeline through its sort of polishing and retailing phases

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with everybody just destocking all the way along it, that 20% decline and the fear and lack of credit that exists means that the uptake of rough diamonds, the pricing is down about 40% and the uptake is down hugely.

However, as I say, just recently, we've noticed that the sort of simple items that can be manufactured quite quickly and that produce the engagement ring size stones and quality stones, there is already a pickup in demand in the sense of that's now being pulled through the pipeline again. So, it certainly is not getting worse at the moment. And as I say, the ultimate consumer offtake has not gone down as much as people generally believe.

But the ripple back in the chain because of everyone within it destocking, has caused this sort of what can only be kind of a temporary very difficult period. So, what we expect to see is rough part prices actually taking some recovery in the near term, not because the consumer is back into the retail stores, but because the pipeline is dried out to the extent that now the manufacturing has to start again to feed the existing consumer supply, so there will be some recovery in rough diamond prices to come to that.

Beyond that, we then wait for the world itself to get back on its feet again which, of course, is a much more difficult thing to predict and certainly not in my field of expertise specifically. Does that take you to where you wanted to go?

Victor Flores - HSBC - Analyst

That's helpful, thank you. Just one final question. Does Rio Tinto have any right of first refusal that would prevent this transaction from being consummated?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

The short answer to that is no.

Victor Flores - HSBC - Analyst

I didn't think you would announce it but I thought I would ask.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

There is one that exists in certain forums of transactions, but this isn't one of those forums.

Victor Flores - HSBC - Analyst

Great. Thank you.

Operator

Your next question comes from the line of Paul Burchell with Dundee Securities. You may proceed.

Paul Burchell - Dundee Securities - Analyst

Thank you, gentlemen. But my questions have already been posed.

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Thanks, Paul.

Operator

The next question in line is Haytham Hodaly with Salman Partners. You may proceed.

Haytham Hodaly - Salman Partners - Analyst

Good morning, gentlemen. Thanks, operator. Ty, question for you I guess. I'm assuming the 22.5% of the 40% will be treated as the minority interest in the income statement.

Ty Burke - Ken Ross Corporation - President, CEO

Yes.

Haytham Hodaly - Salman Partners - Analyst

You'll see the effect beginning, in theory, at the end of this month or roughly two weeks from now? It will hit your financial statements in the second quarter?

Ty Burke - Ken Ross Corporation - President, CEO

We haven't closed yet, obviously. So depending on when closing is and then immediately after that it will kick in. So, our quarter end is obviously March 31. Not sure whether we'll be closed specifically on that date. If it is after, obviously it shows up in Q2.

Haytham Hodaly - Salman Partners - Analyst

Perfect. Just last question, with regards to the fact that you're spending -- the 40% interest is putting up its share of capital, et cetera. What would have been -- you may have answered this. What would have been the 40% interest share of capital here over the next 12 months?

Ty Burke - Ken Ross Corporation - President, CEO

At the moment, it is approximately 150. However, we're expecting revisions to that at the end of this first calendar quarter.

Haytham Hodaly - Salman Partners - Analyst

That would have been the 40% portion of the 150.

Ty Burke - Ken Ross Corporation - President, CEO

Correct.

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Operator

Okay, wonderful. Thank you. Your next question comes from the line of Tanya Jakusconek with National Bank. You may proceed.

Tanya Jakusconek - National Bank - Analyst

Hi, thanks. Just a few questions. I'll start with just the due diligence that's been done. That maybe Ty, you can just talk about what due diligence was done on the retail and what was done at the mine.

Ty Burke - Ken Ross Corporation - President, CEO

Obviously we did careful due diligence as we would always do. From a -- on the mine, we had a variety of outside consultants as is our practice, as well as our internal Kinross technical services team review mine plans, and our head of technical services actually was intimately involved in the original planning of Diavik, so we had a leg up on the project. As you know, the mining process is quite straightforward. It is what we do. It is fundamentally moving, processing rock and crushing and separating. It does not involve chemistry or -- pretty straightforward mining and milling. And an extremely high quality mine would be our sum take.

The fact it is in the Northwest Territories close to the Arctic Circle and in the kind of geography that Kinross understands, we believe quite well made it particularly interesting. And running in supplies on a winter ice road is, again, right across the plate from our perspective, on the technical side.

With respect to retail, of course, retail is managed separately within Harry Winston and financed effectively separately, that's not the focus for us. We're fundamentally mining guys.

So our investment at the equity level, the \$40 million is indirectly touches on the retail but the due diligence we did there involved reviewing the financials in considerable detail and spending time with management, as well as using outside experts in the diamond retailing side.

Tanya Jakusconek - National Bank - Analyst

On the mine plan, I mean Rio Tinto has not released a new mine plan on the mine and they have deferred the underground for at least six months, they said. And the -- I don't know -- I don't think the new mine plan has come out. We spoke to Rio and there isn't a new mine plan. Did you do your basis based on the old mine plan?

Ty Burke - Ken Ross Corporation - President, CEO

Right, and then what we would see as a variety of scenarios for that new mine plan and it is not -- not unfamiliar territory to us as I outlined.

Tanya Jakusconek - National Bank - Analyst

Okay. Then you mentioned you were thinking a strategy for diamonds for quite some time. I must say I didn't know you were looking at diamonds for some time. How long were you thinking about diamonds?

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Ty Burke - Ken Ross Corporation - President, CEO

We fundamentally have looked as we said, we're a gold company. So we've looked at complimentary minerals that trade at the same kind of multiples that gold do. That's effectively silver and diamonds. So we're monitoring the top projects in the world in gold, silver and once we get started on this one, in diamonds. But I don't want to overlay it. This is one of the great mines in the world and obviously one of the great mines in the diamond world. So, when we saw an opportunity to invest on a -- at an attractive valuation in a complimentary mineral, that makes a lot of sense.

I would use it as a parallel to investing in an excellent gold mine back when gold was \$280 an ounce. It is not the similar dynamics in those markets, and not the similar thinking about the possibility of investing. And of course, gold companies, senior producers trade at different multiples today than diamond producers. So, we saw all of that as providing an attractive valuation opportunity.

This particular transaction came up relatively recently. We saw it as a good way to add value and think that it presents us with interesting options and a strategic partnership that is attractive.

Tanya Jakusconeck - National Bank - Analyst

Okay. Then just maybe what is -- what do we need for closing conditions. You just said the customary one. What is required?

Ty Burke - Ken Ross Corporation - President, CEO

The customary ones would include final documentation and, obviously, regulatory approval. In a private place we need TSX approval so pretty straightforward there.

Tanya Jakusconeck - National Bank - Analyst

Repay your \$75 million debt repayment this year and then pretty much clean out some of the other debt that's with the mine, is that the main purpose?

Ty Burke - Ken Ross Corporation - President, CEO

Tanya, would you repeat the question? Because we missed the lead-in to your question.

Tanya Jakusconeck - National Bank - Analyst

The question was actually for Bob on the Harry Winston front.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Sure.

Tanya Jakusconeck - National Bank - Analyst

I just wanted to know, Bob, are you going to be using this cash to repay that \$75 million debt repayment you have this year that was due, and is it mainly from the mining side that you're going to be cleaning out the debt facility there?

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

It is only from the mining side and the debt facility is \$50 million now, Tanya. We already took care of \$25 million of it.

Tanya Jakusconeck - National Bank - Analyst

Okay. So, that will clean out all of that. On the mining side.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Yes. The jewelry side works basically as with all jewelers. It is a debt facility that is secured by the stock, the jewelry stock . Okay?

Tanya Jakusconeck - National Bank - Analyst

Okay.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Thank you.

Operator

your next question comes from the line of Chris [Vocha], a private investor. You may proceed.

Chris Vocha - - Private Investor

Good afternoon, gentlemen. I have a few questions as well as a complaint. First of all (indiscernible) you have a conference call within ten minutes. And as a private investor, how do you expect people to start analyzing your investment? Please answer that question then I have another financial question to ask you.

Ty Burke - Ken Ross Corporation - President, CEO

Mr. Vocha, we understand the question. The press release went out on the wire at 4:15 after the closing which, of course, is the legal requirement. Secondly, it is quite usual that our Company and others would do a conference call as soon as reasonably possible after the release in order to get information out to investors and to analysts for them to use. We thought it was a pretty straightforward press release, speaking very bluntly about it. Pretty straightforward. Not a complex transaction or a lot of numbers. We thought it was more important to get quickly out to investors and explain the transaction and answer questions. But we appreciate the comment.

Chris Vocha - - Private Investor

As a private investor, I'm not -- other companies, especially when you are investing into mine explosion and mine commodities which doesn't have a world market, and most people follow Kinross because gold which has a gold market, how do you expect investors to follow the diamond market?

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Ty Burke - Ken Ross Corporation - President, CEO

Well, sir, I appreciate the comment. Today, Kinross is a \$13 billion market cap company. As I mentioned earlier, this gold price, cash flow is something like \$900 million in gold cash flow.

This is a small strategic accretive transaction for us and so we don't believe it is going to be a distraction for management. It certainly doesn't change our core focus which is on gold. We think it is a value creating deal in the long-term. So, while I appreciate the sentiment, we thought long and hard about it and believe it will be a value-added transaction. It is not a large one and does not change our focus.

Chris Vocha - Private Investor

And it won't affect too much of the cash flow of (indiscernible).

Ty Burke - Ken Ross Corporation - President, CEO

That's correct.

Chris Vocha - Private Investor

You foresee exploring into diamonds and other measures more as you go and now so you mention that you wanted to take advantage of your tax laws in Canada, so you went into this investment, is that the only motive?

Ty Burke - Ken Ross Corporation - President, CEO

We saw good value in the investment, so the motivation was purely based on value and an opportunity that presented itself. We are not, at this point, planning any expenditure on exploration or looking for other metals. So, I think you can be confident that Kinross' cash flow is focused on gold, as is our exploration budget of some \$65 million this year being spent to explore for gold. No plans at this time to explore for anything else.

Chris Vocha - Private Investor

Thank you very much. Thank you for having patience with my questions.

Ty Burke - Ken Ross Corporation - President, CEO

Our pleasure. Thank you.

Operator

Your next question is a follow-up from Irene Nattel. You may proceed.

Irene Nattel - RBC National Markets - Analyst

Thank you. Just to clarify for those of us looking at it from the Harry Winston perspective, are you contemplating any other strategic changes? We understand the whole -- the mine plan and we'll get that, but should we assume that everything on a go-forward basis is status quo other than the changes announced this afternoon?

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Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

I'm not sure of the sense of your question, Irene. But we're not contemplating any other radical changes, but we're always alert to opportunities, of course, of which this was one frankly for both of these companies. Does that cover what you were looking for?

Irene Nattel - *RBC National Markets - Analyst*

Yes. I just wanted to make sure that, for example, the gentleman from Kinross mentioned that jewelry -- retail is not particularly what they're focused on. I just wanted to clarify you were not contemplating divesting of the retail business at this point.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

No, we're not. Operator do, we have more questions?

Operator

Yes, your next question is from Edward Stark with BMO Capital Markets. You may proceed.

Edward Stark - *BMO Capital Markets - Analyst*

Good afternoon, gentlemen. I have a couple of questions. First of all, does the transaction in any way affect Harry Winston's right of first refusal on 60% of Diavik?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

No, it doesn't. It doesn't have any impact on that.

Edward Stark - *BMO Capital Markets - Analyst*

Okay. Then my second question is if you're looking at -- the possibility of the underground operation expanded and consequently, more ore is going to be sourced from the pits as they stand at the moment, can we expect an increase in costs due to higher stripping ratios or anything like that?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

No. No. It doesn't really change that. You should bear in mind that the mine produced less carats last year for instance, and therefore, less tonnage out of the high grade pit. They went [five four side] than was planned. So, there's no -- it is not a question of taking the pits any deeper.

There is simply a very comfortable transition period planned between underground -- between surface and underground mining that would gradually phase in underground mining over three years. Before -- it would be three years while you're actually operating both open pits and underground before you became entirely dependent on underground. The sense of a deferral of the completion of the underground mine simply means that you tighten that schedule and basically, accomplish the transition in a two-year period rather than a three-year period. It doesn't imply the open pits will be deepened beyond the original plan.

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Edward Stark - BMO Capital Markets - Analyst

Thank you. I guess my next question is probably self-evident. In terms of the \$104 million being paid for the 22.5% of the 40% of Diavik, is that money going into Harry Winston sort of parent company? Or into the partnership?

Ty Burke - Ken Ross Corporation - President, CEO

The money is paid into the partnership.

Edward Stark - BMO Capital Markets - Analyst

Into the Diavik partnership itself, not into Harry Winston as a group.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

No. That's right. It goes into the partnership that Harry Winston owns, the larger piece. And Kinross, the smaller piece.

Ty Burke - Ken Ross Corporation - President, CEO

It is a subscription, to add to what Bob is saying, it is a subscription for new shares in the partnership. To be clear, it is not at the mine level where part of it goes to Rio Tinto, no.

Edward Stark - BMO Capital Markets - Analyst

What I was meaning was is that \$104 million, is that for only available for the partnerships, commitments on Diavik, none of it's available for other things .

Ty Burke - Ken Ross Corporation - President, CEO

No, it is available for the expenditures that are required under the Diavik joint venture.

Edward Stark - BMO Capital Markets - Analyst

Okay. Thank you. My last question then is just in terms of the retail segment, given this sort of decline in jewelry resale sales, is there any danger of the inventory being down?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

No, not really. It does get reviewed on an annual basis and recently had a review but there's no significant change there.

Edward Stark - BMO Capital Markets - Analyst

Okay. That's it for me. Thanks very much.

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Thank you.

Operator

Your next question comes from the line of Ali Motamed at Boston Partners. You may proceed.

Ali Motamed - Boston Partners - Analyst

This question is for Bob on the Harry Winston side. I was looking at the debt breakdown and the retail credit facilities are \$190 million. The mine, you're going to pay down that debt. Theoretically, if you were to default on the debt on the retail side, would it have any impact, do you have any collateral from the diamond side and the corporate parent or would they effectively take over?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

There are -- there is the ability, if you like, for the corporate parent to cure a default should it exist on the retail side, but that's already provided for.

Ali Motamed - Boston Partners - Analyst

But I mean if we didn't want to because theoretically, you could look at this and say if we were to walk away from the retail side, we're looking at a company with barely any debt and we just sold for \$100 million, I mean 20% of it with no debt. So, the implied valuation is substantially higher if we could theoretically walk away from that retail -- not that we would. But theoretically, we could walk away from that retail side and hand over the debt to the banks and say good-bye. I mean it is implying \$9 a share for this diamond side.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Right. I mean, there is a -- actually, there is -- we provide a guarantee of \$10 million against the debt facility.

Ty Burke - Ken Ross Corporation - President, CEO

But it is nonrecourse.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Oh, yes. Other than that, it is nonrecourse. If you want to look at it that way. If you wanted to look at it that way, you could right away walk away from it. Yes, not be responsible for the debt beyond \$10 million. I wouldn't suggest it is a very good idea. In a sense the retail division has a lot of brand value, of course.

Ali Motamed - Boston Partners - Analyst

If you believe it has value. But if not, at least we can theoretically just capture that in our valuation separately.

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Sure.

Ali Motamed - Boston Partners - Analyst

Thank you very much.

Operator

Your next question comes from the line of Don Hughes with Desjardins Securities.

John Hughes - Desjardins Securities - Analyst

Thanks, operator. Most have been answered. Just a couple of quick ones. Date of closing. Do you have an estimate on the date?

Ty Burke - Ken Ross Corporation - President, CEO

We think date of closing is two to three weeks out.

John Hughes - Desjardins Securities - Analyst

All right. And Bob, site sales for the current quarter, can you just remind us is it two or three?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

The current quarter is two.

John Hughes - Desjardins Securities - Analyst

It was three last quarter or two?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Three last quarter. Our next sale is actually next week. Begins next week.

John Hughes - Desjardins Securities - Analyst

Last one. Just, Bob, in terms -- like who approached who? Was this Kinross approaching you or vice versa?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

No. Several of us, Ty and myself and also Paul [Roneson] have known one another in various sort of sporting lights over the last couple of years. So, we've actually been kicking this around for quite awhile.

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John Hughes - *Desjardins Securities - Analyst*

Right. Were there anyone else, any other companies that you approached?

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

No.

John Hughes - *Desjardins Securities - Analyst*

Okay. That's great. Thank you. Thank you, operator. That's it for me.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Thank you.

Operator

There's one final question in queue from David Horton with BMO Capital Markets. You may proceed.

David Horton - *BMO Capital Markets - Analyst*

Yes, hello and thank you. Ty, is there any escrow provision at either the Harry Winston or the Diavik partnership level?

Ty Burke - *Ken Ross Corporation - President, CEO*

If the question is are we advancing money ahead of closing, the answer is no.

David Horton - *BMO Capital Markets - Analyst*

The question is actually are you prevented from selling your stake in either at some -- for some period of time in future.

Ty Burke - *Ken Ross Corporation - President, CEO*

The equity obviously is private placement so there is a statutory four month hold on the equity. With respect to the asset, it is what I would consider to be a standard joint venture where we have rights on each other's -- mutual rights on each other's interest. But no specific restriction.

David Horton - *BMO Capital Markets - Analyst*

Your realization of value from this transaction, is that through resale or through cash flow?

Ty Burke - *Ken Ross Corporation - President, CEO*

Well, I hope through both. But we don't intend at this point to be short term sellers. We think there is a long-term value play. And I'd emphasize again, this is one of the best mining projects in the world. We think Harry Winston occupies a pretty unique

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spot in the diamond mining world that we're investing in at an attractive value. We are thinking long-term on this. So we'll have to account, of course, for the equity investment on a market basis and as mentioned earlier, the minority interest in the partnership will be accounted for that way. We think it stands alone on that basis.

David Horton - *BMO Capital Markets - Analyst*

Okay. That gets into the other area that I was looking for clarity on is the accounting. So, clearly, there is a mark to market of the equity position.

Ty Burke - *Ken Ross Corporation - President, CEO*

Like -- we have an equity portfolio as you might know of \$100 million to \$150 million at any particular moment. So, this will go into that equity portfolio and be managed as our other interests are.

David Horton - *BMO Capital Markets - Analyst*

And as far as seeing it on the P&L, would you equity account the Harry Winston stake and also the partnership?

Ty Burke - *Ken Ross Corporation - President, CEO*

We'll have to see that at year end. Obviously, it will probably be investment accounting at this point given we're not in any kind of control position or so on. But that will be something the auditors rule on the end of the year. I would expect it to be investment accounted for at this level.

David Horton - *BMO Capital Markets - Analyst*

Okay. And any future dividends received has that tax effective outcome as described before.

Ty Burke - *Ken Ross Corporation - President, CEO*

The tax effect takes place because of the partnership. As soon as the mine is cash flowing post CapEx, we would expect to get the benefit of those tax losses. And our Canadian tax loss carry forwards, in order of magnitude \$150 million and, of course, an annual G&A bill here of \$75 million or so. So we've got lots of elbowroom. We think that's an additional nice benefit from the deal.

David Horton - *BMO Capital Markets - Analyst*

With your exposure to the partnership, can you see any circumstance going forward where you would be expected to put in more money into the partnership if the capital expenditure was higher than expected or other circumstances.

Ty Burke - *Ken Ross Corporation - President, CEO*

We'll be indirectly taking our share of the CapEx going forward. And so, we've set aside, in order of magnitude, \$20 million or \$25 million to be our share of that over the next couple of years. Obviously, we don't know the specific number yet and won't for a little while. But what capital the mine requires we'll flow up to the partnership and take our 22.5% share of the 40%.

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David Horton - *BMO Capital Markets - Analyst*

Thank you very much.

Ty Burke - *Ken Ross Corporation - President, CEO*

Thanks.

Operator

You did have an additional question come in from the line of David Christie, a private investor. You may proceed.

David Christie - *Scotia Capital - Analyst*

Actually, from Scotia Capital, David Christie.

Ty Burke - *Ken Ross Corporation - President, CEO*

I was hoping we had a personal account there.

David Christie - *Scotia Capital - Analyst*

I'm investing for myself now. I'm calling you from London so I was cut off quite a few times. Just quickly, I think Tanya asked you and I caught the tail end of your answer, how long have you been talking to each other and why the sudden move into diamonds? Could you answer that quickly?

Ty Burke - *Ken Ross Corporation - President, CEO*

Yes. Talking to each other, as Bob mentioned earlier, we've known each other for quite some time, we were looking for an opportunity to invest in assets that are potentially undervalued today and potentially trade at gold style multiples. This one was the logical step, given the unique spot that Harry Winston and Diavik are resident in the diamond universe. As to specifics on the deal, I mean it got serious in the last week or so. That's when we got into the chute into terms of negotiating a term sheet and agreeing basic terms.

David Christie - *Scotia Capital - Analyst*

Okay, thanks. Based on the conversation I've heard, the first of rights of refusal that Rio Tinto has is sort of not standing here because they're basically buying part of the partnership and your cash that's going into that is going into the partnership. Is that right?

Ty Burke - *Ken Ross Corporation - President, CEO*

Yes.

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David Christie - Scotia Capital - Analyst

Next question is for Bob, I guess. Just on the debt that's outstanding, the senior debt that's there, does this alleviate the problems of renewal next December?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Yes, it does. In fact, we take down \$25 million this month before this transaction. We've only got another \$50 million there.

David Christie - Scotia Capital - Analyst

Okay. And how about the rest of the debt? Do you see any problems with any of the retail debt with retail sales down?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

No, no. I mean as I said, secured by value of inventory which is one of the great things about this business is that doesn't move around much at that level. So, no, actually we're not -- we're nowhere near the sort of ceiling limits on that credit facility.

David Christie - Scotia Capital - Analyst

Okay. And in general, how are the retail sales these days from a general point of view? Your Bond Street store yesterday, and they said everything was going swimmingly.

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

I'm glad to hear it. But just a slight caution, Dave. We're doing our year end, of course, and fourth quarter on April 2. So I've got to be careful not to comment on things that would normally be a part of that but in general, retail sales, I would say we made a very conservative plan based on the experience of the last couple of months of last year which, of course, where the huge downturn took place. So far, we've outperformed that plan. But it's early days yet, when you think that we've got January 31 year end.

David Christie - Scotia Capital - Analyst

Are any stores in danger of closing at this point in time?

Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

No. That would not be something we would contemplate.

David Christie - Scotia Capital - Analyst

Okay. One more question on the move to underground in the new pits at Diavik, what percentage of the way are we down the road there on the plan, a year and a half, two years ago, whatever it was.

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Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

So, what percentage of the expenditures to complete the underground developments of being completed -- have been completed? Is that what you were asking?

David Christie - *Scotia Capital - Analyst*

The 418 and the underground.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

The 418 is fully developed and fully in operation. Most of the ore feed is coming from 418 supplemented by some A154 sand. Underground, we're more than halfway, I'd say probably about 60% through the capital program there.

David Christie - *Scotia Capital - Analyst*

Okay. So, you've done this prestrip at 418 and you're totally in mining.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Yes, completely.

David Christie - *Scotia Capital - Analyst*

Okay, that's good. And the underground, you're well underway. That's great. Thank you very much.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Just in case you weren't on that part of the call earlier, it's our expectation that the completion of the underground program may well be deferred into next year. However, of course, the expenditures are as well. That's the whole point.

David Christie - *Scotia Capital - Analyst*

I heard Rio Tinto say they were delaying things. Thanks very much.

Robert Gannicott - *Harry Winston Diamond Corporation - Chairman, CEO*

Okay.

Operator

This concludes your question and answer portion of your conference. I would now like to turn the call over to Mr. Gannicott and Mr. Burke for any closing remarks. You may proceed, gentlemen.

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Robert Gannicott - Harry Winston Diamond Corporation - Chairman, CEO

Well, thank you very much for attending. There were an interesting set of questions. We're very pleased about this deal complete. Look forward to a future together.

Ty Burke - Ken Ross Corporation - President, CEO

Thanks, folks.

Operator

Thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Have a great day.

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