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HW.TO - Harry Winston Diamond Corporation Update on Diavik Mine Plan

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Harry Winston Diamond Corporation's conference call. My name is Amanda and I will be your coordinator for today. At this time, all participants are in a listen-only mode and we will conduct a question-and-answer session towards the end of today's conference. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call, your Chairman and CEO, Mr. Robert Gannicott. Please proceed.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Thank you, Amanda. Good morning, everybody and first of all, I would just like to draw your attention to the statement regarding forward-looking information at the bottom of the press release.

Having said that, as at the time of our year-end results call, we advised that we expected to be able to provide some additional information on revisions to the Diavik Mine plan by the end of April. We made the press release yesterday evening providing this update information and this call is to answer any specific questions resulting from that release.

I would emphasize that we have presented here a plan that preserves flexibility to be able to respond as quickly as possible to changes in the diamond market. The world in general and the diamond market in particular are still attempting to find stability after a dramatic upheaval, of course. Although this plan attempts to look out several years, perhaps its main certainty is that it, itself, will change as the diamond marketplace itself evolves.

Over the last few months, we have seen system improvement in the rough diamond market as it reestablishes an equilibrium with new polished diamond prices and demand levels. Although this improvement is welcome and certainly encouraging, it will nonetheless take sustained retail demand recovery to return this industry to its full health.

I am joined here by Alan Mayne, the Chief Financial Officer and Ray Simpson and we are now ready to answer any questions you might have. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). [Des Kalila], Royal Bank of Canada.

Des Kalila - *Royal Bank of Canada - Analyst*

Thank you. Good afternoon or good morning. It's Des Kalila (multiple speakers). Bob, could I ask a couple of questions? Could you perhaps amplify a little bit on your comments on prices? I have seen from most of the -- like WWW polish prices that there has been a bottoming in prices. Can you give any indication what the move off the bottom might be?

And then a couple of more detailed questions. If we look at the production forecast for 2009 at 1.3 million tonnes 100% basis and then the costs of $185 million, which we assume would be the Harry Winston share, we get a unit cost figure that looks extraordinarily high. And then thirdly, just what does the new mine plan mean for the life of mine of Diavik?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

All right. Well, let me -- first of all, I will deal with the things that I deal with and then get Alan on to the more specific operating cost question.

First of all, on the diamond price recovery, I guess our view, Des, is that, as you know, we track polished price purchases as well and about three months ago, we saw sort of finally a month where none of the polished items that we buy actually experienced any further downfall. And that coincided then with later that month a rough diamond sale where we, and I gather other producers as well, were able to push prices up a little bit. That became a bigger increase the following month and this month, the market does still feel -- I hesitate to use the word robust -- but nonetheless, I mean there is certainly demand activity. And so we certainly don't expect prices to decline in our sale this month.

I would rather not be specific about percentage numbers because it really forms part of our quarterly reporting, Des, but by the increase has been certainly noticeable. It is certainly -- if you add it all together, we are certainly in the teens and it appears that that is still continuing.

I know I hesitate to sort of say that this is now a firmly established trend because, I mean with the world economy in general, I am not sure that it is an absolute certainty that there isn't a further leg down. But basically I would say polished prices in our view from where we look at it, these bottomed out about three months ago, and then that caused, it was rough prices, which had gone way below the level at which polished prices declined as people lived off the stockpile and there was a hugely diminished amount from rapid (inaudible) to start to rise. And that seems to still continue.

Des Kalila - *Royal Bank of Canada - Analyst*

And Bob, just to interject, you are not concerned that with DeBeers and ALROSA back in the market that it could be -- it could just cap improvement?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Oh, yes, it could. It could well do that. I think one of the, I think, that underpins diamond demand, thank goodness, is sort of the engagement ring that made the bridal demand, which is about 50% of the marketplace. But there is no question this market is not back to where it was in the heyday of last summer. It is still in the recovery mode.

I don't believe that -- I don't [forget] DeBeers have not really been stockpiling; they have been not mining. So other than the relatively more modest sort of stockpile that ALROSA would have, there really isn't a lot of -- there is not a vast amount of goods to come into the marketplace here other than the reestablished production from those places.

Des Kalila - *Royal Bank of Canada - Analyst*

Thanks and --.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Now what was the other part of the question again? There was a middle part and then there was another one that I was going to answer at the end. Could you just refresh me?

Des Kalila - *Royal Bank of Canada - Analyst*

Yes, the last one was on -- with the change, the revised production profile that you're giving us, what does it do to life of mine?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Oh, yes, okay. Well, life of mine, there are two things basically that affect the production and the life of mine. I would say, to put it very simply, additions to ore reserves and resources that are underground basically don't add to velocity; they add to mine life. In other words, these sort of areas that are geological resources, they are not part of the reserve or the resource base at all, they are areas that have been identified through deep drilling and so on that have not yet been defined well enough to go into the resource base. If they do come into the mine plan in the future, they wouldn't sort of increase the rate at which we mine, they would have the effect of increasing the life of the mine.

The other thing, Des, of course, A-21, which is in the resource base, but not part of the mine plan, there is some optimism there that there is a mining technique that is being proposed for this that is being investigated that could well bring A-21 into the mine plan. But if that happens, that then increases velocity. In other words, it increases tonnage throughput. And if all of that were to happen, then we could envisage about 2 million tonnes a year being mined from 2012 out to about 2022, 2023 and then 2023 in fact and then a three-year decline down closure in 2026.

Des Kalila - *Royal Bank of Canada - Analyst*

Great. And then would you like me to repeat the --?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Alan, would you like to deal with the cost aspect in relation to the reduced tonnage this year?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

Sure. There is a couple of components, Des. As we mentioned in the release, included in the $185 million are two items that would not be considered typical. One of those is the expensing in the current period of the cash operating costs that are going to be our share that are going to be picked up in December. Because there is no production, those costs will actually be expensed in the period. Whereas, in a normal year, the operating costs would be effectively converted into inventory and hence, be expensed as cost of sales when those carats were sold in the succeeding year when they were shipped. So that is one aspect driving the $185 million.

The other is, as you will recall when we had the Q4 call, we had unsold inventory in Q4. It has been sold now in Q1 and there is an increase or a cost of sales associated with that that is driving the $185 million.

The other part of this is a bit more subtle and it relates to what will be a difference this year between production and carats available for sale. So when you do the math on the 1.3 million tonnes process and your work out your grade for your carats produced, you have to add back in the carats that we will absorb in Q1, and as well -- the way the mine cycle works, as I am sure you know, there are periods during which, in some years, deliveries can be higher than production and this is going to be one of those years.

So to summarize, from the numerator perspective of revenue, you would have to increase your carat number to reflect the carats that were carried over from Q4 sold in Q1 and also to reflect the fact that we expect to receive carats available for sale that will be in excess of what you would calculate as our share of production. So it is still a high number, but I don't think when you do that math, it is as staggeringly high as the math you may have done at the outset.

Des Kalila - *Royal Bank of Canada - Analyst*

Okay. So the 10% you are referring to would be more an indication of the unit costs?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

Well, I think it is an indication of a gross cost. I think what I am trying to guide you to is that the units are going to be higher than what is implied by just taking the 1.3 million tonnes times your grade if you use reserve estimates times 40%.

Des Kalila - *Royal Bank of Canada - Analyst*

Yes, okay.

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

This is an important point. I think the last paragraph in the section on cost of sales, just to give you a sense of how unique this year is expected to be on this front, we did try to highlight this by saying that this trend is not indicative of the cash operating costs at the mine because we do have these sort of unusual items that wouldn't normally appear if we sold every carat that was produced and/or shipped to us in the period in which it was delivered.

Des Kalila - *Royal Bank of Canada - Analyst*

Thank you very much.

Operator

Tanya Jakusconek, National Bank.

Tanya Jakusconek - *National Bank Financial - Analyst*

Thank you. I just wanted to come back to the life-of-mine plan again just so that I understand it. When it was announced this morning, it looked like we had gone down to about 1.5 million tonnes per annum I think, Bob, you said that if we include pipe A-21, we can move that to 2 million tonnes until 2023 and then sort of lower it down to 2026 with closure. I just want to make sure, is that a correct comparison to the previous mine plan that had 2.3 million tonnes per annum?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

Yes, it is a view -- obviously, the underground mining plan has evolved. The 1.5 million tonnes is a current view of what we can reasonably expect as an annual production rate from the underground mine, Tanya. And its ore limitation there is really on haulage capacity, that kind of -- the number of trucks you can actually move up the ramp to take more out of the mine, as well as being able to take in some backfill material, at least in the early years, before there is a [punt-based] backfill plant operating.

So the 1.5 million tonnes is a view of what the haulage limitation is out of the underground mine. We could do better than that or we may be challenged to do as well as that. I think the estimate of 1.5 million tonnes is a reasonable estimate in the context of not having done it yet.

So then, as I say, if you add more ore underground, because you have got a sort of fixed haulage capacity, more ore underground simply extends the mine life. So in order to increase the velocity from 1.5 million tonnes up to above that, you then need more -- another sort of working area, if you like, and that is what A-21 potentially constitutes. And it is thought that A-21 could reasonably deliver the extra 500,000 tonnes per year using a special mining technique that is not conventional open pit mining.

The reason that -- obviously, in an open pit, you'd normally expect it to be able to deliver a lot more than that per year, but this is a special technique where, if it is trying to be feasible, if it involves not removing the water off the top of the pit, but actually using sort of an excavation technique operated off a barge and a recovery process to get the broken much out of there to mine the upper 200 meters or so of the A-21 pipe. But it is not yet -- there is a scoping study underway that will continue this year. It is not yet a certainty that this can happen.

Tanya Jakusconek - *National Bank Financial - Analyst*

Okay, I just wanted to make sure that my understanding was correct that the 1.5 million tonnes underground right now, was that -- should I be comparing it to what 2.3 million tonnes was previously expected to be?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

I don't think we were ever going to do 2.3 million tonnes from underground. It was 2.3 million tonnes as a combination of underground and the ends of the open pit. I think what we have was close to 2 million tonnes, which was going to come out from underground and there is no question that the 1.5 million is a more cautious estimate of what underground production could be.

Tanya Jakusconek - *National Bank Financial - Analyst*

Okay. And then just coming back to the sustaining capital, because I think once we have that 2.3 million tonnes of the previous mine plan, I think the guidance had been for about $39 million sustaining capital for that operation. Obviously, with the lower throughput, I am expecting the sustaining to come down. Would you have a number for what sustaining is at the mine?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

I mean, Tanya, I think if you look at what we have set out -- I mean, first of all, I would preface everything by saying to look out for the next sort of 15, 16 years and try to give you some kind of smooth estimate of what sustaining would be I think would be imprudent. But if you just look at what we have disclosed, of 130 million, we have pretty much said that 100 million of that is going to be related to the underground, so you are left with 30 million over three years.

I think our share would probably be anywhere from say $12 million to $20 million depending on the year. But it isn't a smooth, like a manufacturing enterprise, but it will fluctuate depending on what sustaining type of projects are undertaken. But I think anywhere from $12 million to $20 million wouldn't be a bad estimate to use going forward.

Tanya Jakusconek - *National Bank Financial - Analyst*

Okay $12 million to $20 million, when you say Harry Winston's share, do you mean your 31%?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

No, no, no. Let me be clear. The way we are accounting for the Kinross investment is, as you know, they have a 19.9% interest in the public company and they have a 22.5% interest in the limited partnership that holds our 40%. So our effective interest is 31%, not 33.25%. So we're going to continue to proportionately consolidate the 40% interest with a minority interest line. So the numbers that are referred to here in cost of sales and CapEx are for the 40% interest.

Tanya Jakusconek - *National Bank Financial - Analyst*

When I said 33.25%, I meant this year because of the --.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Oh, sorry. Okay. (multiple speakers).

Tanya Jakusconek - *National Bank Financial - Analyst*

The 31%, yes.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Fair enough.

Tanya Jakusconek - *National Bank Financial - Analyst*

The $12 million to $20 million represents 40%?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

Yes, and again, to be clear, that is how we will continue to report numbers for the mining segment. And you will see the impact of the Kinross investment and we will highlight this in Q1 as to where it is on the income statement and the balance sheet.

Tanya Jakusconek - *National Bank Financial - Analyst*

And then just lastly, just on the grade -- coming back, maybe, Bob, for you on the underground. The 1.5 million tonnes that we are now going to be doing from the underground, when the new mine plan was done, has the grade at all changed or was it just tonnages that were taken off?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

No, the grades have been modified. There is still -- well, the work to do the deep drilling on A-154 South, Tanya, if you remember, we couldn't do the kind of equivalent drilling that had been done on A-418 and A-154 North because the A-154 South was the active working face. That deep drilling is now being successfully completed. We won't have results until later in the summer because, of course, these (inaudible), of course, have to be run through a pilot plant.

But on that basis, I mean -- so that work will modify the grade and probably the tonnage too for underground of A-154 South. But leaving that aside, there haven't been any other changes to the grade that we are going to be mining from underground. So the only -- the flexibility in what happens underground depends on which of the pipes are mined and that will depend on rock conditions that are encountered at the time. Obviously, A-154 North, for instance, is lower grade, but has higher diamond price. The other end of the scale, A-154 South is very much higher grade, but more modest diamond price and A-418 is slightly different again.

But these are all as described in the reserve base, so it just depends on what tonnages of each you are taking at a certain time. The plan doesn't incorporate which tonnages and which pipes are going to be taken, but I would stress that that is flexible according to mining conditions and indeed according to market conditions. If there is a bigger appetite for diamonds then obviously higher grade areas will be mined.

Tanya Jakusconek - *National Bank Financial - Analyst*

And can you just remind me the grades of the pipes again?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

It is probably better that we send you the actual description if you like. Can I just send you the table after this?

Ray Simpson - *Harry Winston Diamond Corp. - VP, Corporate Development*

Tanya, it's in the back of the -- it is in the back of the Q4 release.

Tanya Jakusconek - *National Bank Financial - Analyst*

Okay. If it is there, I will get it there.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

What's that?

Tanya Jakusconek - *National Bank Financial - Analyst*

That's it. Thank you.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Thank you.

Operator

Edward Sterck, BMO Capital Markets.

Edward Sterck - *BMO Capital Markets - Analyst*

Good morning, gentlemen. Just one very quick question. One is you just mentioned that part of the reason for the costs being higher for 2009 would be essentially the cost of inventory sold. Could you then tell us in which case there will be more diamonds sold this year than produced? Could you give us any guidance as to how many diamonds are likely to be sold?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

It is a tricky one because, probably you are aware, that one of the things we have to do is to make disclosure that doesn't effectively disclose our average diamond price because that puts us in contravention of antitrust legislation because Rio Tinto were selling the same thing in the same marketplace. So what we have always done is we disclose carats produced and then we disclose dollars received from sales. Obviously, if we were to also disclose as well as dollars received from sales, if we disclose carats sold, then it is pretty simple to get to the average price. So I apologize for it; it is not something that we choose to do. In a sort of business disclosure sense, it is something that we are constrained on by law.

Edward Sterck - *BMO Capital Markets - Analyst*

No, I understand that. So I might just envision things might be slightly different for this year considering you would be selling goods from inventory, which one would presume would be a different population of diamonds to those which Rio Tinto -- which you have been mining this year?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

That is not really much of an issue. The change -- really the change between the diamonds that are produced and the diamonds sold has more to do with how much of the material was dwelling at the mine in that sort of end of the system. (inaudible) already being produced in (inaudible) actually became part of our sales for this year even though they were effectively mined last year.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, that was kind of (multiple speakers).

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

So it is not -- we have not been holding any substantial amount of inventory. We have sold through through the entire piece here. I mean we are obviously relatively a much smaller producer than DeBeers and so on, so we have managed to sell through despite the state of the diamond market.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, fair enough. And then my next question was really one that has actually already been asked. But could you just repeat the prospective dates being studied for the possible mining of the A-21 pipe?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

The objective, of course, is to get this in so that we don't have a big production dip. And that requires some fairly rapid work to be done now and with the objective of getting this in towards the end of 2013 or into 2014.

Edward Sterck - *BMO Capital Markets - Analyst*

And running for the sort of years -- how many years would you expect that to run for?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Well, the production from that would then run out until essentially 2022.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, but I mean, obviously, this is highly speculative at the moment?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Yes, and the reason, of course, is (inaudible) because A, it is an unconventional, if you like, it is a mining technique that involves basically almost grinding this material out with a cutter head that is underwater. Because it is floated on a barge, there is some uncertainty about how long the whole area will be surrounded by a berm, a dike because it is not a hydraulic -- it doesn't have a hydraulic barrier in it. It is simply a waste drop berm that can support a silt curtain. So that when all this work goes on, we don't end up putting silt out into the main lake.

And the uncertainty of that production would be how long can we actually float a barge in here. Obviously, there is part of the season where it becomes to cold, the ice becomes too formidable to be able to move the barge around. But until we know exactly what that is like and whether we can do some things to keep the ice off that pool for a portion of the season, it is just felt that 500,000 tonnes per year is a nice conservative number to use at the moment.

Edward Sterck - *BMO Capital Markets - Analyst*

Fair enough. Okay, thank you very much. That's all for me.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Okay, thank you.

Operator

David Christie, Scotia Capital.

David Christie - *Scotia Capital - Analyst*

Scotia Capital here. Just a couple quick questions. First, on the costs. I am still a little sort of wondering where the $185 million comes from. If you look at your DD&A last year, you would expect that it would be going down this year with less tonnes. So to have such a high number -- the cost per tonne, can you give us a range of what that is this year?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

Well, David, I think what you have got to remember is we are bringing in now a meaningful amount of 418 where we have just had a significant amount of all the costs capitalized. So that is going to be driving the non-cash component of costs associated with mining the 418 pipe.

David Christie - *Scotia Capital - Analyst*

So how many years are you amortizing 418 over?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

It will be over the open pit and underground reserve. So that is one of the drivers. And then the other driver, as I say, is we have got the costs associated with December's production that would normally not flow through until the succeeding fiscal year because those costs would actually be added -- or they would flow into the inventory value of the carats produced. Because there is no production, we have to expense those costs. And then you have the carryover from Q4's unsold inventory that was sold in Q1, which increases the cost of sales again in this year. The net effect of those two things is about $15 million.

David Christie - *Scotia Capital - Analyst*

Both the value of the carats and inventory at the end of the quarter? You record them in cost of sale I guess, right, so --?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

Let's put it this way, we will get that out in Q1.

David Christie - *Scotia Capital - Analyst*

What was the amount though? I don't remember what it was.

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

There was about 460,000 carats unsold. But again, I think as most people concluded looking at the sort of implied average price in Q4, not by design, but just through market dynamics, the unsold inventory was largely comprised of, dare I say, sort of lower value smaller goods. So that is why the carat numbers are relatively high against the dollar value. So the next year's cost of sales are probably about $15 million higher than they would be as a result of those two items.

David Christie - *Scotia Capital - Analyst*

Okay. So the DD&A per carat has gone up quite a bit too on the non-cash costs?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

It is up -- it is -- yes, it is up. It is up from last year.

David Christie - *Scotia Capital - Analyst*

And just on that mining method, Bob, just curious if there is anywhere in the world where they are doing such a thing?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Yes, apparently, it has been used in Norway. They have also run a test at a (inaudible) in one of the pits that they weren't operating and they were able to flood the bottom of it and actually test it. It is not a terribly unconventional thing. The cutter head is actually the same thing that was used to excavate the cutoff or slot trench for our [hydronia] for the dikes around 154 South and 418. And it is the same company that operates this same equipment, of course. So it is really just sort of a bigger version of that with a lot of guidance equipment on it.

David Christie - *Scotia Capital - Analyst*

Now will you have to get new permitting for that or what is the --?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

No, no. The A-21 is all part of the existing permit.

David Christie - *Scotia Capital - Analyst*

Yes, I know it was the existing permit to put a dike around it and what not, but to do this kind of mining instead of --?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

No, I don't believe so. I mean it is -- obviously, the water volumes -- but we have got -- the big thing here is keeping the lake clean and the water behind this berm will obviously get extremely [turbid], as well as letting it settle. We will obviously have to process some water, but I mean we have got a water process plant in for that. There will obviously need to be some reference back to the permitting, to the water license issuing organizations and so on. But it's not something that requires any major variance.

David Christie - *Scotia Capital - Analyst*

So it still involves putting a berm on, just not putting cutoff walls and all that kind cut of stuff in?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

That's quite right.

David Christie - *Scotia Capital - Analyst*

Okay, okay.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

But the berm, as you can appreciate, a berm that doesn't have a cutoff wall in it is really --

David Christie - *Scotia Capital - Analyst*

Yes.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

-- not the way of starting a waste dump.

David Christie - *Scotia Capital - Analyst*

So it doesn't have all the engineering stuff that goes into the other ones? Okay, got you.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Exactly. You have still got to clean off the loose material, vacuum the loose material off the bottom of the lake on the footprint of the berm so the material you place doesn't slide off as you build up the trapezoid of the berm. But other than that, no, it is just a question of dumping basically rip/rap, in other words, regular waste material from the open pits.

David Christie - *Scotia Capital - Analyst*

Okay, one more question. Right now, when you guys have sites, are you selling everything you have in inventory as far as produced diamonds to sold or are you having to hold stuff back?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

No, we are selling it all. In fact, I know that some of the other -- one of the other producers was telling me that they have been holding some inventory and they actually sold down that inventory now. So there is appetite in the market again.

David Christie - *Scotia Capital - Analyst*

So you are selling 100% of production basically right now?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Yes.

David Christie - *Scotia Capital - Analyst*

Okay, perfect. Thank you.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Thank you.

Operator

Des Kalila, Royal Bank of Canada.

Des Kalila - *Royal Bank of Canada - Analyst*

Hi, Bob. Bob, a little bit cheeky I suppose, but can you comment whether, through your retail arm, you are seeing any pull-through? You mentioned earlier that, for the market to recover fully, you need a pull-through in the retail area. And I know you are not in the --.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Des, I know this is an interest of yours, in particular and I appreciate that. You have got to keep in mind where our business is. This is not exactly the run of the diamond market. I mean we are in pretty friendly space.

But having said that, what we see is life is still without any sign of improvement really in the United States, other than in the places that gets tourist traffic. So that would be our story in Hawaii which gets Japanese tourist traffic and to some extent [tourist base]. But otherwise, the US is still pretty tough -- well, very tough.

We have seen improvement in Japan. I am not sure that that is true of luxury goods vendors in general. We changed our product offering in Japan a while ago and I would say, over the last several months, we have seen some consistent improvement, albeit from a pretty tough base.

In the Far East outside of Japan, life has continued to be pretty good. We continue to grow sales all the way through and we are, of course, now opening this year in Singapore and we have elected to do another store in Shanghai as well.

Europe, in Europe, which means Paris and London for us, what used to be a business of selling to Middle Eastern people, as well as Russians, is now Middle Eastern people. The Russians have pretty much disappeared. I think that's sort of basically a wrap up of our world. And I think for the jewelry world in general, it wouldn't be too dissimilar from that. I think there are -- some of the lower-and retailers are starting to see some hints of improvement in the US, but I would say we have not yet seen that.

Des Kalila - *Royal Bank of Canada - Analyst*

And maybe just a quick follow-up on costs. Given the lower scale of the mining plan now, can you give some indication -- I mean that will have some implications on working capital, like kind of what you need to keep on-site during the times when you can't supply, is that going to be material?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

The biggest thing I guess it would be like fuel consumption obviously. An awful lot of the diesel fuel, 30% of it is used in haulage trucks basically and most of the rest of it is used to generate electricity to operate the mill. So a big saving on fuel. The other big savings I suppose, when you are not drilling and blasting, you are not using ammonium nitrate and some diesel fuel as well for instance. So there is a saving there. But obviously, of course, on the labor costs. I mean, Alan, can you quantify that anymore?

Alan Mayne - *Harry Winston Diamond Corp. - CFO*

No, I mean I think, Des, for this year, I think the way we have looked at this is, on a cash basis, when we looked at this revised plan versus what we had discussed with Rio in December, depending on the diamond price you assume, it is essentially cash-neutral because carat deliveries are lower than what was in the original plan. But then we have a combination of savings from the shutdowns and deferred capital expenditure. So this year being our fiscal year, depending on the diamond price assumption you use, it is essentially cash-neutral to probably slightly positive to us with this change.

Des Kalila - *Royal Bank of Canada - Analyst*

Okay, thanks very much.

Operator

Jacques Wortman, GMP.

Jacques Wortman - *GMP Securities - Analyst*

Yes, good morning. Two quick questions. First, I'm afraid I'm going to retread on old ground a little bit, but can you just reconcile between the carats of production in 2008 at about 9.2 million carats I think it was and the total decrease in the reserves estimate of about 13.9 million carats? And then secondly, when will a new tech report be posted to SEDAR? Will it be relatively quick or are we about a month away, just curious?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Jacques, I think I would rather get back to you on the phone. To give you ore reserve numbers off the top of my head is a bit rash. I would rather actually have a table in front of me, but I will get back to you right away. What was the other question, sorry?

Jacques Wortman - *GMP Securities - Analyst*

With respect to a new tech report with the new mine plan, is that something that is going to be posted very soon.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

(inaudible) report. No, there is no contemplation of doing that at this stage. And as I said at the beginning, this is not exactly a mine plan that comes with a heavily bound book. This is something that is going to be subject to revision as we go along. This is the plan as it is now. I would be very surprised if we get to the end of this year without this already having been changed.

Jacques Wortman - *GMP Securities - Analyst*

Okay. Let me ask you this question then. I was going to wait for a new 43-101 or a tech report, but could you remind us of what, for the balance of the open pit mining, what an average cost per tonne of ore we should assume for mining? And then also for different underground mining methods, what cost per tonne we should assume for underground?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

We don't have a breakdown like that, and I am not sure whether that will be -- I mean there is -- we do have some comparative information on the two different underground mining methods that are to be used. I can't remember what they were off the top of my head. Obviously, underhand cutfill is more expensive than the blast hole stoping. Although the fill requirement is still the same, but blast hole stoping is I think about 30% cheaper. Underground mining is off the top of my head. The open pit production is probably only about 15% cheaper than the underground actually overall because it got such a large base cost float here. In other words, the cost of the base services (inaudible) strips and a combination, etc. (multiple speakers).

Jacques Wortman - *GMP Securities - Analyst*

So we have got open stoping that is 30% cheaper than underhand. You have got the open pit being 15% cheaper than the underground. So what is my starting point?

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

15% cheaper than the blast hole stoping. But look, I mean if you want to get more than that, we're trying to dig something out. I will try to come back to you with that as well.

Jacques Wortman - *GMP Securities - Analyst*

That would be great. Okay, thanks, Bob.

Operator

There are no more questions at this time.

Robert Gannicott - *Harry Winston Diamond Corp. - Chairman & CEO*

Okay, well, thanks very much -- thank you all for having read through that and for participating on the call. Thank you.

Operator

This concludes today's presentation. You may now disconnect. Have a good day.