THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

HW.TO - Q1 2013 Harry Winston Diamond Corporation Earnings Conference Call

EVENT DATE/TIME: JUNE 07, 2012 / 12:30PM GMT





THOMSON REUTERS

## CORPORATE PARTICIPANTS

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

**Cyrille Baudet** *Harry Winston Diamond Corporation - Group CFO*

**Frederic de Narp** *Harry Winston Diamond Corporation - CEO, President - Harry Winston Inc.*

**Laura Kiernan** *Harry Winston Diamond Corporation - Director, IR*

## CONFERENCE CALL PARTICIPANTS

**Irene Nattel** *RBC Capital Markets - Analyst*

**Oliver Chen** *Citigroup - Analyst*

**John Hughes** *Desjardins Securities - Analyst*

**Brian MacArthur** *UBS - Analyst*

**Tanya Jakusconek** *Scotiabank - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the Harry Winston Diamond Corporation fiscal year 2013 first quarter conference call. My name is Geneda, and I will be your conference 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. Please note that we will be making some forward-looking comments today.

Various factors and assumptions were applied in deriving these comments and actual results could differ materially. The principal factors and assumptions that were applied and risks that could cause our results to differ materially from our current expectations are detailed in our filings with Canadian and United States Securities Regulatory Authorities and can be found at www.SEDAR.com and www.SEC.gov.

During today's call, we will also be discussing certain non-GAAP financial measures such as EBITDA. EBITDA does not have a standardized meaning according to GAAP, and Harry Winston defines it as sales minus cost of sales and selling, general, and administrative expenses. Please see the press release and the MD&A we filed yesterday for further information about this non-GAAP measure. 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 Corporation - Chairman, CEO*

Good morning, everyone, and welcome to the Harry Winston first-quarter earnings call. We are, of course, all pleased to be able to present these results of our first quarter this year. Just compared to the equivalent quarter in the prior year, we have sold more of our various products, more rough diamonds, jewelry, watches, improved our operating margins, and delivered a strongly improved operating profit. We are in different locations for this call. I am in a rather echoey room in Yellowknife in the Northwest Territory of Canada. Our CFO, Cyrille Baudet, and the President and Chief Executive of our luxury brand division, are both together in New York.

So we are going to begin the call with a report from Cyrille Baudet on the financial highlights. And then that will be followed by Frederic, who will discuss the luxury brand business. And then I'm going to come back on the call after that to deal with the mining and rough diamond business, then we will take your questions and then we will finally close. To start the proceedings then, Cyrille, over to you.

---

**Cyrille Baudet** - *Harry Winston Diamond Corporation - Group CFO*

Thank you, Bob, and good morning, everyone. Bob and Fredric will discuss our segment results for the quarter and the outlook in detail. I would like to speak about our consolidated results for the time period. Our consolidated sales for the quarter were $192 million, with $89 million from the mining segment, and $103 million from the luxury brand segment. These represent an increase of 34% from the comparable quarter of the prior year, both at actual exchange rates and constant rate with higher sales in both segments. Our consolidated gross margin in Q1 were 31.8%, an increase of 510 basis points from the comparable quarter of the prior year of 33% -- 38.1%, sorry.

The mining and luxury brand segments both generated higher gross margins. Mining gross margin as a percentage of sales over the first quarter was 21.2%, versus 13.9% in the comparable prior-year period. Gross margins for mining benefited from 116% increase in volume of carats sold, which is around 1 million carats, partially offset by a 34% lower average sales price per carat, down 34% to $88 a carat. It results from the inclusion this quarter of lower-priced diamonds, originally held over from the Company's decision to hold inventory at October 31, 2011. Had we sold only the last production shipped for the quarter, the estimate of that shipped price would have been about $125 per carat based on the price achieved in the last sale of the quarter.

The luxury brand segment gross margin as a percentage of sales was 52.6%, versus 47.5% in the comparable prior-year period. The 510 basis points of improvement in the quarter were driven primarily by increased sales of higher margin [access in core] products. The first quarter of prior year included a $5.2 million high value transaction, but it was not repeated in the third quarter. Consolidated SG&A expenses increased 28% to $54.7 million in the first fiscal quarter of 2013, versus $42.8 million in the prior-year period. SG&A for the mining segment decreased $2.1 million in the quarter, primarily due to executive severance incurred last year that we did not repeat this year.

In the luxury brand segment, SG&A increased by $12.6 million in the first quarter, or 36% versus last year. The increase was primarily due to higher advertising, marketing, and selling expenses, including the opening of the new flagship salon in Shanghai, China. The SG&A spending is supporting our long-term growth strategy of expansion of our distribution network, the introduction of new jewelry and watch products, and our brand-building initiative. The prior year period included a recovery of insurance premium amounting to $2 million that did not happen again this year. Corporate SG&A increased $1.4 million to $4.8 million for the quarter, primarily due to severance and to travel expenses and salaries related to additional corporate employees.

Consolidated operating profits for the quarter increased by nearly 300% to $18.7 million, versus $4.7 million last year. EBITDA increased by 77% in the quarter to $44.2 million versus $25 million last year. Our profits are still largely being driven by the mining segment as the luxury brand is in growth phase. The evolution of the luxury brand profit in EBITDA continues to move in the right direction. Our liquidity is solid with cash of $113 million and availability under our credit facility of $102 million as of April 30. The mining segment is currently in a net cash position with $75 million of credit available, its senior secured facility has two one-year extensions available beyond next year's maturity. The Company is in the process of refinancing its senior credit facility for the luxury brand segment, which has a net debt position of $218 million. Now, I would like to hand it over to Frederic.

---

**Frederic de Narp** - *Harry Winston Diamond Corporation - CEO, President - Harry Winston Inc.*

Thank you, Cyrille. The global demand for luxury products remains strong and broad-based. Tourism from emerging markets continues to fuel consumers demand for branded high-end luxury products in key markets around the world. This past quarter, we have continued having evidence that our strategy is working as we execute on our long-term vision by expanding our distribution network, hosting powerful branding events, introducing luxury and time pieces products, supported by strong advertising campaigns, and strengthening our supply chain.

During April, we celebrated the opening of our first freestanding pavilion flagship store in Xintiandi, Shanghai. The first-of-its-kind concept was designed by famed architect, William Sofield. The ribbon-cutting ceremony was attended by the Hollywood celebrities from the television show The Gossip Girls. The opening event was followed by a gala dinner for clients and journalists, held on the nearby Taiping Lake. And at the event, we showcased the history of Harry Winston as well as all the heritage collections and timepieces. Our guests were entertained by a performance pop star Jay Chou, very famous in China. And this was truly a significant event in the history of Harry Winston, representing the grand introduction of the brand to China, a market that has a huge potential for our brand. The event generated significant editorial coverage inside China, as well as outside China.

During March, the month of March, we presented our new timepieces products at the Basel Watch Fair in Switzerland. The new timepiece collections, including the Opus 12 and the introduction of the Feather collection were very well received by fashion journalists and clients from around the world. The overall mood of the fair was very positive, and as a result of increasing global demand for timepieces. At the end of the quarter, we launch our new bridal collection, the Belle collection, and this new collection received great editorial coverage. The sales during the first quarter were $103 million, up 26.3% on a current exchange basis and up 26.2% on a constant exchange basis. The increasing sales during the quarter was driven by strong regional performance outside of America; in Japan, Europe, and Asia. During the prior-year first quarter, in America, there was a significant high-value transaction that was not repeated in the current year period.

We continue to experience strong growth in our access and core products segments, including bridal, timepieces, and jewelry collections. Regionally, and at constant exchange rates, sales for the first quarter in Europe were up 73%. Japan was up 43%; America was down by 9%; and Asia outside of Japan was up 39%. Europe generated strong sales across all product segments. Japan experienced significantly higher bridal and timepiece sales, especially when compared to the prior-year period when the business in Japan was negatively impacted by the earthquake and the tsunami. Asia, outside of Japan, benefited from higher sales of all products primarily as a result of the opening of two new salons is Shanghai, China. The America region experienced growth of core and access products, including bridal, timepieces, and jewelry collections, offset by a significant higher value transaction in the prior-year that was not repeated. The significant improvement in gross margin for the quarter is a very positive trend that should continue as we expand our access and core business and strengthen our supply chain. The operating profit in the quarter increased to $7.1 million, or 6.9% of sales, compared with $4.2 million and 5.2% of sales in the prior-year quarter.

Over the long-term, we believe that demand for the jewelry products from strong brands will continue to grow. In the near-term, the impact of the debt crisis in Europe and the economic slowdown in China will present challenges. We expect the sales of core and access products to continue to grow during the second quarter. However, we do not expect to anniversary the high-value, low margin transactions, which totaled $55.6 million from last year's second quarter. We will continue to expand our distribution network in prime locations around the world allowing Harry Winston to benefit from the increasing mobility of high-end luxury consumers. A new licensed salon has just opened last week in Moscow on Tretyakovsky Street and another licensed salon is expected to open in Kuwait City in the fall. Our wholesale timepiece distribution network is planned to expand to approximately 220 doors by year end.

We are reconfirming our long-term vision through 2016 as follows, growing sales at compound annual growth rate in the midteens, improving our gross margin to the low 50s, improving our operating profit margins to the low to mid teens. We also plan to expand our distribution network to approximately 35 directly operated salons and 15 licensed salons and to grow to 300 wholesale timepiece doors by the end of fiscal 2016. We are very pleased with the results that we achieved in the first quarter as we continue to execute on our long-term strategy. We are creating value for the shareholders as we consistently grow sales and profits, as well as the long-term value of our brand. I'm very confident we will continue to achieve our objectives. I would like now to pass the call back to Bob.

---

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

Thank you both, Cyrille and Frederic. I'd like to turn our attention then to the mining and rough diamond sales segment, which is still the engine room of our balance sheet, although, as you can see the brand is now gaining momentum. The first quarter of the year is never the high point of our mining year. Most of our ore production is still coming from an open pit for the balance of this year, and in the open pit very low temperatures and blowing snows that occur midwinter do interrupt production. It's also a period when operational attention is deflected by the demands of the winter road, all these logistics, et cetera, so that we never expect to deliver a full quarter of the full-year's target production during the first quarter. In the underground portion of the mines, the development schedule has [now called up to] plan making it easier to focus on improving the underground ore production velocity. Monthly diamond deliveries have already strongly increased, but the better weather conditions take hold. And we currently see no problem achieving the more than 8 million carats in the forecast for the year. Diamond sales in the quarter were strong, encouraging us to sell down some retained stocks of lower quality diamonds as improved demand met our price expectations.

We've always evaluated potential diamond industry investments, and we continue to do so. The changes in the industry that are now potential opportunities in the area of Northern Canada that we understand the best. We are however, always going to be mindful of the increased risks presented by the volatile conditions of the day, as well as the necessity to purchase value rather than just volume. We have been very disciplined about that throughout our history, and we will continue to be so.

Quarterly reports are, of course, by their very nature retrospective. The world has certainly changed since the end of April when we closed this first quarter, but probably not as much in the diamond industry as many of you would imagine from the news of other commodity price changes. Our jewelry and watch sales in May remained robust with continued growth. This appears to be the case in other hard luxury retailers as well. Eurozone residents have always been a relatively small segment of the customer base of what is, after all, an American brand. While the improvements in Japan, driven off a strong yen, certainly do quite dramatically affect us, for example.

Because the European banks have been the important traditional lenders to the diamond polishing industry, their current liquidity problems do affect the supply chain. Diamond polishers are restricting their demand and are prepared to sell diamond inventory while they take a wait-and-see position to the risk of a more global slowdown affecting the industry. Although China is now the largest consumer of many bulk commodities such as iron ore and copper, it is still relatively small in diamond consumption terms. Its continued growth in diamond demand is, of course important, but it is still marriage ceremonies in America and Japan that underpin the diamond industry for the foreseeable future.

So thanks for listening to us. We are ready to take your questions, and then I will just come back and close the call at the end of the question period. Operator, if you want to switch into questions please?

## QUESTIONS AND ANSWERS

**Operator**

Thank you. (Operator Instructions) Your first question comes from the line of Irene Nattel with RBC Capital Markets. Please proceed

**Irene Nattel** - *RBC Capital Markets - Analyst*

What I'm really trying to get my mind around is what is happening right now in the space versus what the fear is of where we might be going. Because, if we use your wording, Bob, retrospectively, Q1 was a very good, solid quarter. You noted that sales on the -- demand within luxury brand segment continued to be robust through May, and yet we are seeing this tightening of liquidity from the diamond banks. We are seeing the diamond polishers selling down inventory. Everyone is holding their breath to see what happens both in Europe and in China. So is it really just more of a, we are not sure where this is going? Or there's something out there in the environment that makes us think that we are actually in the early stages of this slowdown?

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

I think seen from the diamond perspective, there is nothing out there that signals a change at the current time. The reason there's a polishing -- the processing part of the change that's affected, of course, is because if the banks tighten up the credit, the people that are -- the weaker members of the diamond polishing industry are obviously then constrained in what they can buy. The stronger members of the diamond polishing industry that have cash reserves, see it as an opportunity to try and buy raw material cheaply. This is why we have been withholding stocks of various items and continue to do so. In other words, we are sitting there finding that we cannot actually purchase polished diamonds for our jewelry industry significantly cheaper than they were before. Yes, you get some items at 3% or 4% below what they were three months ago, but it's hardly a collapse. Whereas on the rough diamond side, you've got the situation where the diamonds that are used to make those polished diamonds, the guys that are buying them are looking for deep discounts, purely because they are one of the few people in the business that have got cash. So it's obviously more sensible to hold on to the diamonds because you know that you are going to sell those kind of diamonds, you are going to sell them for more later.

But I would say, and I'm sure Frederic would -- and Cyrille would reinforce this, we do not see any changes in our watch sales. The changes that we do see are positive. We continue to see growth in our jewelry and our timepiece businesses. And I believe that if the other people in the industry experience the same thing. I know that Graff during his IPO marketing campaign made the same comments about the month of May -- the month of April too, because he's on a calendar year. And so the two months of April and May were continue to be not just holding onto gains, but actually significant improvements still. I believe that that is still a general thing throughout the industry. That is the point that I was trying to make when I said this, obviously, the construction appetite in Japan has huge effects on the demand for basic commodities, because China is by far the biggest consumer of those basic commodities now. So the change in their appetite has a big effect on the demand, and, therefore, the price.

China, although we are, of course, very pleased to see it, and the Chinese tourism that drives purchases in the luxury goods centers around the world, it's still not a very -- it's not a very big component of the diamond and diamond jewelry business. It's in the teens, where as if we're talking about the copper business, I think China is down more than 60% of copper uptake, for instance. So, sudden changes in China which there been some, although I guess there are now some efforts to reinflate the economy there, but the changes in China have not had the dramatic effect on our industry that they have on the exchange traded from all commodities.

---

**Irene Nattel** - *RBC Capital Markets - Analyst*

That's great, and that's really helpful Bob, thank you. If I could just ask a question now about on the luxury brand side. Obviously very encouraging to see the increased sales in the core and access segment of the mix, which should be more repeatable. And I'm wondering whether -- is it a lot of extending the reach, attracting new customers? Is it growth across -- are you seeing it more in the newer collections, jewelry versus timepieces? If you could talk a little bit around the nature of the growth, where you are seeing it coming from.

---

**Frederic de Narp** - *Harry Winston Diamond Corporation - CEO, President - Harry Winston Inc.*

Frederic speaking. Thank you for your question. Yes, we have to know that the brand already at this very moment here has 25 salons. We had 19 last year, and we're going to have 28 salons at the end of this year. And so the brand is growing. So the look of the brand, the visibility and awareness of the brand is growing at a very strong pace when you see the look of our salon venue, the Xintiandi Shanghai salons we just opened last month. So the look and the buzz around the brand is exponentially increasing, so that is surely a positive effect on the traffic we have in our stores, that make us not very much comparable to last year and more to come.

I see demand from emerging countries, the accelerated creation of pockets of wealth from emerging countries. And these people travel. And the tourism is exponentially increasing, and that has a positive impact. The growth for our core and access is coming very, very strongly on bridal, and are so much more opportunities to grow the bridal segment. I repeat, we are just selling a few thousand engagement rings and waiting around the year. But we have so much room to increase the bridal segment, and it happens that people get married, continue, (inaudible). And there is an appeal for authentic brand offering around quality luxury that we are representing at Harry Winston that is absolutely unique and it's here. This emerging clientele, people might think they don't know anything about luxury. They already know after two or three years of becoming rich, they are already super quickly educated and reaching out to brands that are really authentic and high-end like ours, and therefore in quest for quality. We see these growths coming for core access, jewelry and watches and bridal.

And the last point is Japan. Japan is a fantastic market for us because Japan, they want small items of the highest quality, and this is what we are about. Sometimes we are not that small, but we are about highest quality. And the Japanese people love us. And the growth rate in Japan, 43%, is so, so strong. And last year we had not been so affected by the tsunami at the end of the year -- at the end of the day, and we grew exponentially in Japan because there is an appeal for quality. It's coming from all these elements, Irene, and it's encouraging. It's very encouraging, because the growth continues quarter after quarter, month after month, and it is still here, and this is what we want. So we nearly in 24 months, we nearly doubled the volumes of jewelry units we sold.

---

**Irene Nattel** - *RBC Capital Markets - Analyst*

That's great, thank you very much. And then a couple of housekeeping items, if I may. The increase in cash on the balance sheet of $27 million, is that by any chance related to the luxury brand segment and maybe some prepayment of pieces that have been ordered, or is that really from the mining side? That was the first question, and the second one is just around tax rate for the year.

---

**Cyrille Baudet** - *Harry Winston Diamond Corporation - Group CFO*

Irene, the increase of cash in the balance sheet is related to the mining side.

---

**Irene Nattel** - *RBC Capital Markets - Analyst*

Okay, thank you, Cyrille, and the tax rate?

---

**Laura Kiernan** - *Harry Winston Diamond Corporation - Director, IR*

Can you be more specific with your question?

---

**Irene Nattel** - *RBC Capital Markets - Analyst*

Sure, just wondering what we should be using as a -- the tax rate bounces around on a quarterly basis, but just wondering generally speaking what we should be using for modeling purposes for the tax rate.

---

**Laura Kiernan** - *Harry Winston Diamond Corporation - Director, IR*

Generally about an effective tax rate of about 28%.

---

**Operator**

(Operator Instructions) Your next question comes from the lines of Oliver Chen with Citibank. Please proceed.

---

**Oliver Chen** - *Citigroup - Analyst*

We had a question related to how we should think about modeling the average price per carat going forward. The $88 was lower than what we expected, but I see that you guys mentioned that $125 number. Do you see that that is a sustainable run rate, or how should we think about 2Q, 3Q, 4Q, and what might happen in the evolution of the price per carat?

---

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

What you should do, and I think Oliver, we have presented an ore mix going forward from the year. We published the prices on a quarterly basis. We put the prices in for each of the components of the ore that is mined. In other words, each one of these pipes has a different price per carat. So the average price per carat is, of course, based on the proportion of each one of those pipes that is mined during year. And I think we have given an ore mix for the year. Is that correct, Laura?

---

**Laura Kiernan** - *Harry Winston Diamond Corporation - Director, IR*

Yes we have, about 0.5 million tons each from A154 North and South and 1 million tons from A418.

---

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

And I think the only modification to that, I told you, just to tell you the joint venture meeting where, and of course, each time we have one of those, there are small tweaks that are made to the operating plan. In May we will be actually mining more of the A154 South, which is a higher grade. So more carats, but it's also relatively high-valued carats compared to 418. So they may mine more of that and less of A418. However, if we do that it will drop the total tonnage down a bit. Obviously, we're only going to be doing it because it's a value proposition.

But I guess what I'd do is, if you want us to give you a numeric answer to that, we'd have to take a look at these things ourselves and come back at you. But I think we were looking at an average price for the year, or own forecast average price of the year about $135, but I think we will come back to you with something a little more accurate.

---

**Oliver Chen** - *Citigroup - Analyst*

You made strategic decisions in this past quarter to hold back some of the inventory given the liquidity concerns or the liquidity supply and demand dynamics. Is that expected to continue? Just because if we did the math previously that way, Q1 should have been much higher.

---

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

Hold on, no. Q1 what happened in Q1 was we had retained a lot of carats that were very low value for the previous year, the previous quarter. Because the diamond market, the rough diamond market became quite strong in Q1, we decided to move those diamonds into the market. We were selling -- we added -- we diluted our mine production, if you like, with a lot of material that was in the $10 to $20 per carat range. So a lot more carats, but the average value goes down. But you still end up with more value than you would have had if you were selling the run of mine file.

However, at the other end of the scale, there are some higher value diamonds, in particular, higher valued rough diamonds where we believe the market price of the day isn't representing the price that we have to pay for the polished diamonds that come out of those goods. Therefore, we hold those because frankly, it's better than turning them into cash and keeping the cash, and in fact you can't replace next to no interest. In other words, diamond prices are going to -- those items are going to improve more than the interest rate would justify converging the cash.

We are going to continue to do that. That's -- and the nimbleness in doing that is part of the benefit that we get from owning a luxury jeweler. We know what the diamond prices that one has to pay for the finished product, and, therefore, there's got to be a good correlation between that and the raw material before we are prepared to sell the raw material. Particularly as we don't have the immediate short-term need of the cash. I'm afraid that that's always going to continue. I realize it makes it somewhat more complicated to model it, but nonetheless, it's good business.

---

**Oliver Chen** - *Citigroup - Analyst*

Okay, thanks. And on the luxury side, the gross margin is very impressive. Congrats, it's the highest in many quarters, five to six quarters. Is that the run rate we should expect, and how should we think about the gross margin sequentially? Do think you are going to be in the low 50%s, 2Q, 3Q, 4Q, or are there year-over-year comparison considerations?

---

**Cyrille Baudet** - *Harry Winston Diamond Corporation - Group CFO*

Yes, what is important to note in the first quarter is that we did not repeat the high-value transaction that we had last year. Clearly, the evolution in the mix that is more favorable to access in the core is highly reflected in Q1. It doesn't mean that in the second quarter we are not going to welcome some more high jewelry sales with lower margin. The fundamental trend, which is to increase the weight of access and core, certainly is -- everything is there for that to continue. There is some volatility to expect due to high-value transaction that comes and that takes some time to be materialized. But on the long-term, very clearly a trend that is not going to change.

---

**Oliver Chen** - *Citigroup - Analyst*

Cyrille, do you have a sense, it looks great. So you have a sense for the full year and the luxury GM. Do you think you're going to get closer to your longer-range target of low 50s?

---

**Cyrille Baudet** - *Harry Winston Diamond Corporation - Group CFO*

We do hope so, and we are doing everything we know how to do to get that result.

---

**Oliver Chen** - *Citigroup - Analyst*

Okay, and my last question, thank you, is the run rate on the SG and the mining, it looked like a really great number, that 2.5. Is that a reasonable run rate in terms of the dollars and SG&A? How should we think about modeling that? I was thinking it previously, it was closer to $6 million every quarter.

---

**Cyrille Baudet** - *Harry Winston Diamond Corporation - Group CFO*

Don't forget that since last year, we are reporting a separate segment, which is the corporate expense. Which allows to clearly segregate what is the cost of being a group and what is the cost of being a public Company and what pertains to the mining activity. This is the novelty in our way of reporting our numbers. That said, you can probably model run rate from the SG&A on the mining, because of we have taken most of the volatile elements out of the mining SG&A.

---

**Oliver Chen** - *Citigroup - Analyst*

Thank you, and great look for the balance of the year.

---

**Operator**

Your next question comes from the line John Hughes with Desjardins Securities. Please proceed.

---

**John Hughes** - *Desjardins Securities - Analyst*

Bob, just a quick question on the mine side with A21 and that pre-feasibility study and the fact that this is now looking like the dike is going to be constructed and no underground. I'm wondering whether -- is there any change in terms of access to any of that tonnage? I think it's around 3 million to 4 million tons at A21?

---

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

It's only spiked. I can't remember, John, exactly what it is. But if you recall, the shape of A21, it's not like the other pipes; it's more like a martini glass shape. So it necks down to a narrow stem very quickly. The tonnage that's in the narrow stem will not be accessible from the conventional open pit, although there is a sort of a preliminary plan I would say to look at when the open pit is finished, flooding the bottom of it and then floating a barge in the bottom of that and basically underwater mining part of the stem, if I can call it that.

---

**John Hughes** - *Desjardins Securities - Analyst*

Oh, I see.

---

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

It doesn't make much of an impact. Just to give you a bit more update on A21, even though you haven't asked for it, is the meeting that we just had confirmed that this now goes forward for funding applications for the detailed feasibility study to commence, which is not a very big add-on. The way that this was done was that the pre-feasibility study does virtually everything that's in the -- would normally be in the feasibility study, except the final pricing. Because, of course, contractor costs and so on change with time. So that is now being done. At least the funds are being applied for now. And if that's okay, then we begin -- as we begin crushing and screening the rock that's used to construct the dike, we would be starting on that in November of this year.

---

**John Hughes** - *Desjardins Securities - Analyst*

And what kind of construction timeframe are you anticipating?

---

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

It is two seasons. Basically you go through next summer and the summer thereafter, so 2013 and '14. And then you start the pre-strip right after that and you are in production, or January 2017, I think.

---

**John Hughes** - *Desjardins Securities - Analyst*

I see. For that $200 million that is your component of the $500 million total capital, that's not a short-term issue for you in terms of --

---

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

No, it's not. In fact, that was one of the things I was looking at. I think the additional study work that has to be done, on a 100% basis, is about $4.5 million. The crushing, the complete crushing program, not just this year but next year as well, is about $40 million. Where you get into the serious money is when you start doing the dike cut-off wall. That comes about 1.5 years later.

---

**John Hughes** - *Desjardins Securities - Analyst*

Okay last question as well and it's more balance sheet related, but it was noted that you would be looking to refinance a large portion of that current credit facility loan and borrowing on the balance sheet at the end of April. And I'm just wondering whether that happens this quarter type of thing or --

---

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

Yes, this quarter. That relates -- that facility relates to the luxury goods business. And it is of course linked to -- it's secured by the diamond jewelry inventory and watches that the Company holds. But, Cyrille, you want to comment on that?

---

**Cyrille Baudet** - *Harry Winston Diamond Corporation - Group CFO*

Yes, we are currently in the refinancing of this credit facility. The crate facility expires at the end of the year, and we are actually working on it. We hope to conclude in Q2 or Q3 of this year.

---

**Operator**

Your next question comes from the line of Brian MacArthur with UBS. Please proceed.

---

**Brian MacArthur** - *UBS - Analyst*

I just want to go back to exactly what the 125 carats was for the quarter. You said as production is sold. Is that -- that's obviously ex selling the held back inventory from last year, the lower value stuff, the $10 stuff, but did it also exclude the higher value stuff that you've held back now?

---

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

Brian, let me explain that because that is important. What we are saying with that is that had we just taken the material that was delivered from the mine during the first quarter, had we just taken that, added nothing to it and taken nothing away from it, and sold it at the prices that we are prevailing during the quarter, because we know what those prices are because we know the price of each item that's in the makeup because we are selling in Antwerp. Had we just sold the mine production, the prices that prevailed during the quarter, we would have received $125 a carat. The reason for putting that in is to give you a reference to what the value of the mine production is for the quarter.

---

**Brian MacArthur** - *UBS - Analyst*

Right, so effectively it just would've been the weighted average to that guidance you give through the three different zones plus the reprocessed stuff, if you just put that (inaudible) and then after that, you held back. And those were at those prices you gave us in that chart last quarter, and then you held back some of that higher value stuff that's still sitting in inventory, so that cash is still to come out?

---

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

Yes, that's right. We held back higher-value material, and we sold stock of lower value material that we were holding for the prior quarter.

---

**Brian MacArthur** - *UBS - Analyst*

And you did make a comment to the whole thing, is it just the very -- you are obviously holding back at the very high-end. Are you seeing weakness through all the different qualities, if I want to put it that way, or is it just more at the high-end at the moment?

---

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

Yes, it's the larger high-end material at the moment. It's not because of lack of demand at the retail side. As I say, it appears to be that the larger diamond polishers that do have cash resources and aren't relying on bank credit see this as an opportunity, saying, well okay, we've got cash, boys.

If you want to sell, sell to us, but we want a discount. If you don't need the cash, then there's no need to sell at a discount. We could still see the items that are made from this kind of material selling very well.

---

**Operator**

Your next question comes from the line of Tanya Jakusconek with Scotiabank. Please proceed.

---

**Tanya Jakusconek** - *Scotiabank - Analyst*

John asked my question on type A21, Bob, so you don't have to review that again, but I've got a couple of questions. At the analyst day, you mentioned that a potentially working with Rio for the new mine plan. Bob, should we hold our breath on this new mine plan, or do we need to see the sale of the asset or what Rio Tinto is doing with their diamond division before we get this mine plan?

---

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

I asked the question at the JV meeting, which of course is the Yellowknife level meeting as well as a London level meeting. And I think it's just a question I have to take up with them in London now, because you are quite right. We should have a mine plan available. And I think we can do that. But I just need to -- it's probably going to take us a few weeks to do. I don't want to deliberately upset a joint venture partner. So I just want to go and talk to them in London first, and then we'll come up with an exact protocol on how we do that.

---

**Tanya Jakusconek** - *Scotiabank - Analyst*

Okay, and maybe just an update on the diamond fund and whatever is going on in the market, these economic situations. Where are we on that? Have we seen slippage? Just maybe an update on that diamond fund.

---

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

We have certainly seen slippage in the timeline; however, I'd say the interest is strong. And they're actually on -- the people marketing that are actually on a tour right now and have a couple of really big customers for it apparently. You know what it's like in an environment like this; it's hard to get people to actually step up and close on anything. Even the (inaudible), but I'd say it's looking better now than it has for the last five or six months.

---

**Tanya Jakusconek** - *Scotiabank - Analyst*

Okay and then just my final question, Bob, at the analyst day, you talked about the opportunities in the Canadian Arctic on the sale of the caddie and obviously with Rio on their diamond division. I think you mentioned on a caddie that it was a three to four month process in terms of resolving that. And I think you had mentioned on Rio that it was probably a year process. Is that still fair to say or has anything changed there?

---

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

Rio's process is Rio's process, and I'm reluctant to make comments about Rio's business. But I think as I understand it, what they have informed the marketplace is that they are process of making a separation between Rio's corporate business and this separate diamond entity will take something like six months. And then, thereafter, they were then look at what they want to do with this separated entity. Whether they want to do a trade sale, try and float it publicly, whatever. But as I say, I think frankly, I think those are questions for Rio Tinto rather than they are for us.

---

**Tanya Jakusconek** - *Scotiabank - Analyst*

Okay, and then you had mentioned on the BHP, that three to four month process, is that something that you still see? It was just from the analyst day.

---

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

Yes, I know. Yes, I think that's probably still realistic. BHP, before they would get anything closed with anybody, it would likely be about the end of the year.

---

**Operator**

At this time, we have no further questions. I would now like to turn the call back over to Mr. Robert Gannicott for any closing remarks.

---

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

Okay, thank you, thanks very much. Just rolling through the -- to get to the end of my closing remarks. Honestly, we presented a quarter here that the most important thing I think to me for about this last quarter is that it confirms that the efforts that we have been making to broaden the base of our watch and jewelry business are being successful. We are not abandoning the high price point business, but it is the original business of Harry Winston and remains a signature of this very well respected brand. But what we are doing is successfully bolting onto that a much broader business that sells to a much broader client range, particularly bridal business, more access jewelry, and more accessible price point watches. We expect this trend to continue. In fact, we expected it to accelerate as we gradually integrate properly the functions of design, manufacturing, marketing, and sales to a truly coordinated unit.

So I'd like to thank you all for joining us today. For those of you that who may have missed our analyst and investor day, you can still listen in to the webcast and download the presentations if you wish. And we are also, of course, willing to take follow-up questions that you may think of following the end of the call here. Thanks for joining us, and enjoy your summers. Thank you.

---

**Operator**

Ladies and gentlemen that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.

---