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PRESENTATION

Operator

Ladies and gentlemen, welcome to the Harry Winston Diamond Corporation's fiscal year 2013 second quarter conference call. My name is Stephanie 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 press release and the MD&A we filed yesterday for further information about this non-GAAP measure. I would now like to turn the representation over to your host for today's call, your Chairman and CEO, Mr. Robert Gannicott. Please proceed.

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

Good morning everyone and welcome to the management discussion of the result of the second quarter of our financial year 2013. I'm joined on the call by Frederic de Narp, our President of the Luxury Brand Division, and Cyrille Baudet, the Group Chief Financial Officer. I've got a couple other management people in the room in order to handle questions, more technical questions when we finish this discussion.

In summary then, this quarter has seen our luxury brand business continued to supplement higher value, but lower margin, high ticket sales with more repeatable transactions. As our marketing efforts in bridal and access jewelry and watches deliver increased volume of higher margin sales. This has resulted in a significantly improved gross margin in that segment of the Company.

We have also recently released the life of mine plan for the Diavik Mine which projects a value of around $1 billion for our 40% interest in the reserve and the resource base. The mine continues to successfully transition to underground mining, with the last of the open pit ore from the 418 open pit being mined in this third quarter. The efforts of the mine then are now focused on cost reduction efficiencies. And these are proving to be already successful early on.

Although retail diamond demand remains robust, destocking in the processing chain for various reasons which we will discuss later has depressed demand and therefore prices for rough diamonds. We have therefore elected to hold some approximately $65 million worth of stock of selected items in anticipation of improved pricing later in the year, which is a common feature of the diamond year anyway, the latter part is always stronger than the period right after the European holidays and as we enter both the Jewish and the Indian holiday seasons.

I am now going to hand the call over to Cyrille Baudet to explain the financial results more detail. Cyrille will be followed by Frederic who will discuss the luxury brand business. I then am going to come back to discuss the mining segment and close. Over to you Cyrille.

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

Thank you Bob. Good morning everyone. Before I begin speaking about our results, I would like to tell you about two announcements that we recently made. First, we released the updated mine plan indicating an estimated net asset value of more than $1 billion based on reserves and resources including A-21 for Harry Winston's share of the Diavik Diamond Mine. And second, the luxury brand segment refinanced its senior secured revolving credit facility by entering into a new secured five-year credit agreement with a consortium of banks for $260 million.

Now onto the results. Our consolidated sales for the second quarter were $176 million with $61 million from the mining segment and $115 million from the luxury brand segment. The decision by the Company in the second quarter to hold back from sales a broad range of rough diamonds because of market conditions plus the fact that the similar quarter of the prior year included a low margin high-value transaction that was not replicated in the current year resulted in a decrease of 20% in the headline sales number from the comparable quarter of the prior year at actual exchange rates. And a decrease of 11% at constant currency rates. Bob will speak to the rough diamond sales results and Frederic will comment on the luxury brand sales results. However our Company did a gross margin in Q2 was $72.2 million which is consistent with the prior-year quarter. As a percentage of sale margin was 40.8%, an increase of 830 basis points.

The mining segment generated sales of $61.5 million with a gross margin of 23.9%, compared to sales of $89.6 million and a gross margin of 24.5%. The mining segment sold 0.43 million carats at an average price per carat of $142. Compared to 0.57 million carat at an average price per carat of $157. The 24% decrease in volume sold and the 10% decrease in the Company's achieved average raw diamond prices impacted this quarter. The mining segment is holding 0.7 million carats of rough diamond inventory with an estimated current market value of $90 million at July 31. Of which $65 million represents inventory available for sale. The rest being in the process of sorting.

On the luxury brand side, gross margin percentage increased by 11.9 points and margin dollars increased by 14.4%. The improved results were driven by a number of factors and they were all the result of planned action as part of our long-term strategy. First, reduced sale discounts and improved product mix with higher sales of bridal, access jewelry and access timepieces. The improved wholesale timepiece margin as a result of new product launches, higher production volume which creates operating leverage, and the strengthening of our supply chain.

Consolidated SG&A expenses increased 14% to [$55.8 million] (Company corrected after the conference call) in the second quarter of fiscal 2013 versus $49.1 million in the prior year period. SG&A for the mining segment decreased $0.5 million in the quarter. In the luxury brand segment SG&A increased by $6.2 million in the second quarter or 14% versus the second quarter of the prior year. The increase was primarily due to higher advertising, selling and run expenses related to the opening of our new salon.

We are making strategic investments in the brand and we expect SG&A to continue to grow through fiscal '14 and then plateau as we begin to leverage our SG&A spending. So far, we have made strategic investments in new product development, systems, training, and infrastructure, new distribution offices in Hong Kong and Miami, and new salons in China. We expect that through this period of investment we will see the brand grow. However, true benefits of the investment will be achieved when we begin to leverage spending beginning in fiscal 2015.

Corporate segment SG&A increased $1.1 million to $3.4 million for the quarter, primarily due to travel expenses, salaries and benefits related to additional corporate employees. The resulting consolidated operating profit for the quarter decreased 29% to $16.4 million versus $23.1 million in the second quarter of the prior year. EBITDA decreased by 24% in the quarter to $33.4 million, versus $43.8 million. Operating profit and EBITDA for the mining segment decreased 37% to $11.7 million and decreased 31% to $24.9 million respectively. Compared to operating profit of $18.5 million and EBITDA of $36 million in the comparable quarter. The decrease in operating profit was primarily driven by the holding back of rough diamond for sale, resulting in a lower raw diamond sales volume and lower average prices in the second quarter.

Operating profit and EBITDA for the luxury brand segment increased 16% to $8 million, and 10% to $11.7 million compared to $6.9 million and EBITDA of $10 million last year. The increase in the operating profit was primarily driven by positive product mix. Our liquidity is solid with cash on hand of $69 million. We have refinanced the luxury brand's senior credit facility for five years and have $75 million available in our mining segment credit facility. Now I would like to hand the call over to Frederic.

Frederic de Narp - *Harry Winston Diamond Corporation - President, Luxury Brand Division*

Thank you Cyrille. So far, the consumer demand for luxury products remains healthy despite the economic weakness in the eurozone. The tourism from emerging markets continues to be a significant factor supporting demand for the luxury products from strong global brands. I am pleased to report that the long-term strategy we implemented over the past two years is working. While we are expanding our distribution in China, that remains a focus, our strategy includes maintaining a diverse global platform by investing in the core markets of the US, Japan, and Europe. As well as strengthening our presence in South America.

Our objectives are to significantly grow sales and profitability by focusing on strengthening our product assortment with introduction of new jewelry and timepieces collection in the access, core, and ultimate segments. Also, the expansion of the retail and wholesale distribution networks in prime locations around the world with a focus on emerging markets, as well as strong considerations of tourism flows. We're supporting the expansion of our distribution network in launching new products with a strong innovative advertising campaign and exciting promotional events. To bring our brand awareness in new markets. We're strengthening our infrastructure and supply chain to drive margin improvement. And we continue to produce products that use only the highest quality materials and craftsmanship that our brand is known for.

The sales during the second quarter were $115.4 million, down 13% on a current exchange basis and down 11% on a constant exchange basis. The operating profit increased by 16% to $8 million for the quarter. There were two high value transactions during the current quarter for $19.1 million, versus two high value transactions in the prior year second quarter totalling $55.6 million. Excluding the high-value transactions in both quarters, sales increased 25% year-over-year in the second quarter. We continue to expect strong growth in our access and core product segments.

Now regionally, at constant exchange rate, sales for the second quarter in Japan were up 47%. And in America sales were up 32%. Both Europe and Asia, outside Japan, generated high-value transactions in the prior-year period that were not repeated in the current year period, with the result that Asia outside of Japan was down by 41% and Europe was down by 36%. So excluding high-value transactions in both areas, sales in Asia outside of Japan would have been plus 16% and in Europe would have been plus 14%. Japan continued its strong performance compared with the prior year which was impacted by the earthquake and tsunami. America has benefited from strong tourism and improved economic conditions.

Our sales for the first half of the year are up 2% to $218.9 million and our operating profit is up 36% to $15.2 million versus the comparable period in the prior year. Considering that in the comparable period in the prior year we had a greater portion of high-value transactions totaling $60.8 million versus the current year's high-value transactions totaling $19.1 million, the growth in the access core and high jewelry product segment is significant.

Excluding the high-value transactions from both years, sales in the first half of this year increased by 30%.

Our new salons in Shanghai China are performing very well. The increase in brand awareness in China also provides benefits to our salons in Europe and America as Chinese tourists purchase pieces abroad. We are very pleased to announce the opening of a new licensed salon in Moscow in Russia during the month of May, and a new directly operated salon in Harrods in London during the month of August.

In terms of our access and core products we have seen great success during the first half of this year with the launch of the new Belle bridal collection as well as the branded logo Harry Winston ring. Timepieces also continue to perform well with a very strong start from our Ocean Sports collection.

We have seen both in bridal and timepieces that unit and dollar volumes of our access in core products have all increased by double digits during the first half of the year compared with the comparable period of the prior year. These improvements in product mix are contributing to the strong gross margins we have achieved this year.

Now in terms of outlook, the Company expects the trend of wealth creation in emerging markets combined with increasing tourism to remain key drivers of luxury jewelry and time pieces. Over the long-term, consumer loyalty for luxury products is expected to remain strong. Rising consumption in Asia translates into significant growth potential for strong global luxury brands. In the near-term the impact of the debt crisis in Europe will continue to present challenges, although Harry Winston's exposure to the eurozone customer is minimal.

We expect to open a new salon in Geneva, Switzerland early next year as well as licensed salon in Kuwait City during the fourth quarter of this year. Our wholesale timepiece distribution network is planned to expand to approximately 220 doors by year-end.

We're very pleased with the results that we achieved in the first half of the year and we will continue to focus on executing our long-term business plan, driving sales and increasing profitability. The Company is well-positioned moving into the second half of the year, supported by a strong product assortment, advertising campaign, and global distribution network in prime locations. We expect to see continued strong growth in volumes for bridal and timepieces.

We are very excited about the upcoming 26th Biennale des Antiquaires in Paris beginning September 12 in which we are the only American retailer. We have doubled the amount of space in the Grand Palais compared with the previous event, and we will be featuring for the first time our new water collection, product collection of high jewelry which we expect will be well received by clients and press alike. Two years ago when we participated in the Biennale, we received numerous awards for our Royal Gardens Collection, so these collections including the Ultimate Adornments high-jewelry Collection continue to position our brand at the pinnacle of the jewelry market. With innovative designs we are building the uniqueness of the brand and improving our margins.

I would like to pass the call back to Bob.

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

Thanks Frederic and Cyrille. As you've heard from Frederic, our retail diamond sales have grown substantially despite the nervous financial conditions in the world. Although I'm sure that we've outperformed most of our peers in this regard I believe that some sales expansion in key markets has been the norm for the industry. It's therefore perplexing to experience at the same time a depressed rough diamond market. This dichotomy results from stocks of polished diamonds and jewelry being created last year to accommodate a forecast pace of growth in China and India that has in reality become more subdued this year.

This combined with more stringent credit provision has led to destocking throughout the chain rather than ambitious replenishment. We expect the latter part of the year to deliver renewed rough diamond demand as the year-end gift giving season approaches and people start looking to building stocks again following both the Indian and the Jewish holiday periods. In the meantime, we are very comfortable holding stocks in items where we feel that the rough and the polished pricing are mismatched. At our last sale we did in fact sell our complete diamond production in terms of its dollar value. Although we sold some items out of stock and replaced other items that were a bit more difficult to sell this month back into the stock. It's very much a live stock process.

The Diavik Mine continues to increase it's underground production performance from both of the 154 kimberlite pipes, that's A-154 south and A-154 North. As the mining has progressed to levels well below the bottom of the now closed open pit, the ground conditions have improved allowing easier access to broken ore. The A-418 open pit is now in its last weeks of production and underground development below the pit bottom has been prepared for the beginning of underground production there. The heavy blast patterns that are used in the open pit inevitably disturb the rock immediately under the pit floor making the upper level of underground mining somewhat challenging but the stockpile of open pit ore is being created to supplement underground production shortfalls from the early 418 production underground.

The production target for the year remains at around 8 million carats with approximately 1 million of these being delivered from reprocessing of course process plant rejects from the early years of mining. This material of course delivers a much finer size distribution of diamonds which are therefore lower-priced. If the opportunity arises to process more of the higher valued production ore at the expense of the reprocessing material, then the mine may deliver less carats but higher value. The funds to complete the feasibility study for the A-21 open pit, the last of the open pits, and in fact, the last of the Diavik ore bodies that we have developed, these funds have been committed as the first phase of a stepwise development process.

The next step will be the crushing of the rock product required to construct the dike that will surround the A-21 open pit using a crushing plant that's already on site and in fact, being used to supply raw fill for the underground mining operation. The recognition of additional resources in the A-154 and A-418 kimberlite pipes as a result of the recently completed drilling program has reduced the urgency for the A-21 development somewhat. Cost reduction has become a focus now that underground mining has become more routine. Turbine wind farms in the commissioning stages of being able to provide 10% or more of the electrical power requirement for the operation for example.

Fortunately the retail off take of diamonds in Europe at about 10% of the world market was never competitive with America and Japan, and more recently China and India. The almost complete loss of customers there combined with the slowdown in China and India have depressed general industry conditions and optimism. Luxury brands like Harry Winston have generally outperformed the broader market as customers favor trusted suppliers with clear marketplace recognition.

Our own rough diamond prices have only actually fallen by 11% since our first sale of the year and this contrasts for instance with the iron ore pricing which I believe has fallen 24% in the last month alone. This is not really a precipitous fall, 11% since the beginning of the year. After enjoying a spectacular appreciation the year before. The medium term outlook continues to see retail demand exceeding mine supply on a global basis with the timing of the realization of this affect being dependent on global economic conditions of course.

In closing then, after more than 15 years of continuous service as an independent director of the Company, Mr. Roger Phillimore has retired from the Board of Directors to focus on other professional challenges in his life. Roger has been a close friend and a sounding board to me particularly throughout the evolution and growth of the Company while also being a wise and collegial member of the Board of Directors. We all wish him well for the future. And finally, it is with deep regret that we note the recent death of John Lamacraft. John served as Chairman of Harry Winston as we dealt with the financing required for the initial mine capital program. We extend our sympathies to his family. Thanks for listening to us all and now we are ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Irene Nattel, RBC Capital Markets.

Irene Nattel - *RBC Capital Markets - Analyst*

Thanks, and good morning, everyone. A couple of questions, if I might. I guess, standing here and looking at the situation from 35,000 feet, obviously since the world first went pear shaped four years ago, it seems like we've had four years in a row of fits and starts in rough diamond pricing. And recognizing that from a longer-term perspective, pricing is still firm, but yet still when you see 14% erosion quarter-to-quarter, it does give one pause for thought.

So, I guess from where I sit, Bob, Harry Winston is in a relatively luxurious position because you have a clean balance sheet, and so you can afford to hold back inventory. But the prospect of making a significant acquisition at this point, and adding a lot of leverage to the balance sheet, against this kind of a backdrop, I'm wondering how you and how the Board is thinking about that at this point in time?

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

Thanks for the question, Irene, we don't comment on Board discussions on calls of this type. We note your comments, and we certainly plan to have the rough diamond inventory sold by the end of the year anyway. This is just really holding inventory in a period where the holiday season layers on top of a lack of aggressive demand anyway.

Irene Nattel - *RBC Capital Markets - Analyst*

I certainly understand that, Bob. I guess what I was trying to get at was more -- what your views globally are at this point in time on adding leverage to your balance sheet?

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

I'm cautious about it. I think there is room for some more leverage, but I don't think -- we certainly don't want to get over-exposed here.

Irene Nattel - *RBC Capital Markets - Analyst*

Thank you. And then, if I could, just moving on to the luxury brand segment, certainly the 40% increase in transaction count is very impressive. I am wondering how much of that is for the wholesale channel and how much of that is direct to consumers?

Frederic de Narp - *Harry Winston Diamond Corporation - President, Luxury Brand Division*

Most of it is direct to consumers. The retail salons -- the 24 retail salons we internally run that register the most important growth. It is true for bridal, it is true for all collections including watches. But it's mainly -- Licensed salons is very minor part of our business at this very moment, so it's mainly retail.

Irene Nattel - *RBC Capital Markets - Analyst*

That is very helpful, Frederic. And just following up on that, could you give us a view at this point in time of what the customer profile looks like, given the significant increase in transaction count? Who the incremental customers are, and how your perspective of the customer mix, or your perspective on how the customer mix may have evolved over the last three years as you have really lessened dependence on those very significant transactions.

Frederic de Narp - *Harry Winston Diamond Corporation - President, Luxury Brand Division*

Yes. First, with the significant transactions, we are the King of Diamonds, and the jeweler to the stars and this positioning is something we hold very, very high. And for example, the Biennale position where we have a location 2.5 times the size of the one we used to have two years ago, and we will be with the premier jewelers at the center of the Biennale next week. It tells you a lot about what is the position of the brand in the world of high jewelry to start with.

Now, the profile of client -- we have extended new -- we need to reach, and we are reaching, new audiences. In less than 2.5 years we have increased -- we doubled the number of units of jewelry produced and sold, basically. We have added more awareness, so, two elements I think that is generating more traffic to the brand is the less intimidating facade and concept stores. You can see in Harrods we have just opened and much more welcoming, very luxurious, but much more welcoming and less intimidating Xintindi in Shanghai. So, the concept store is working and generating additional traffic, but keeping the privacy inside so that you can have big privacy for the very important clients on one side.

On the other side, the campaign with Freja that we launched 2.5 years ago has found to be very successful with really a less intimidating factor. The third element and last element, which premiered at the time we started the bridal -- bridal is growing month after month, year after year, in every single region including, of course, Japan where we are very preliminary in bridal, but the bridal segment has no limit in what we can achieve there and it's a big part of what we do in jewelry.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great, thank you.

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

Thank you, Irene.

Operator

Oliver Chen, Citigroup.

Oliver Chen - *Citigroup - Analyst*

Hi, thanks, it's Oliver from Citigroup. Regarding the whole back of inventory, what gives you the conviction that you will have an ability to sell through this? It seems like the macroeconomic landscape continues to be cautious. At what quarter should we model this happening, and should we expect the non-recurring benefit from the $65 million, as well as the sell through of the diamonds you obtained that quarter?

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

Yes. Okay. What makes us think that we are going to -- we could sell it today. Other producers are selling everything today. It's a question of price. We simply believe there is a higher price to be had in the latter part of the year when all of the Indian factories get back to work after Diwali, and also after our significant polished diamond show, which is held in Hong Kong every year in the latter part of September. Oliver, this is a commercial decision just made within the context of sales in the year. We would expect to sell these -- the bulk of this probably in the last quarter.

Oliver Chen - *Citigroup - Analyst*

Thank you. And given the volatility that we're seeing in the market and your strategic decision, what is your take on how this may impact the M&A availability of other mining assets?

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

I don't know that it affects them very much at all. You will have noted that a very small producer in Canada decided to shut down because obviously their sales revenue wasn't matching their production expenses. But the kind of things that fall victim to fairly minor price falls like this are not the kind of thing that we would want to buy anyway. The ones that are more robust are certainly of interest, but they will just remain to be of interest. To put it in context, it's not -- compared to the price changes in other commodities, diamonds are actually being stable. Relatively stable for a very good reason, which is that the actual retail sales of the finished product are actually going quite well for everybody.

Oliver Chen - *Citigroup - Analyst*

Okay, thanks, and our final question -- congratulations on such strong luxury segment momentum on both the sales and margin side. Could you let us know what the inventory on a year-over-year basis is looking like at that division, and how you feel about inventories relative to sales trends, and the current state of your inventories at luxury?

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

As you know, and we have made public comments on the fact that when two years ago we had an inventory level that was above the average inventory level that you find in the industry. We are progressing on managing our inventory differently. Of course, we have built up some inventory to support the new collections, and to support the opening of new stores like Harrods last month, and like Geneva in the coming quarters. But overall, the quality of inventory is going in the right direction, and the efficiency, if you want, working capital is going in the right direction.

Oliver Chen - *Citigroup - Analyst*

Okay, and just a follow-up to luxury, the SG&A leverage, I did expect more leverage a little bit sooner. What gives you the conviction to spend now on the SG&A side in luxury? It feels like it's -- you made a decision recently to do that. Am I correct?

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

If you want to understand, our SG&A is basically made of several parts. One is what happens in the falls of the boutique and when you open, (inaudible), when you open [in Shanghai], when you open Harrods, you expect SG&A to crawl in line. And of course, when these stores reach maturity, we are going to get leverage on the SG&A.

The second aspect of our SG&A because we are retail is variable expenses, and these variable expenses, they grow in line with sales, and they grow in line with the type of sales that we are pushing. These expenses could be (inaudible) fees, [part of] rent, sales commissions, and you expect that to adapt. The last bit of SG&A on which we have invested a lot over the last two years, we basically have these functions that allow us to transform what we sell and how we sell it. You don't need the same team in New York to sell high jewelry as you need to sell bridal. That is where we have invested and we continue to invest for another year, and that is the part of our SG&A that we believe is going to plateau at the beginning of FY '15, if you want, and that's where the leverage is going to come from.

Oliver Chen - *Citigroup - Analyst*

Thanks, guys, and good luck.

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

Thank you.

Operator

Brian MacArthur, UBS.

Brian MacArthur - *UBS - Analyst*

Good morning. I just want to go back to the inventory again, and this statement about the estimated achieved price would have been approximately $104 a carat if we sold all the last production. Does that basically mean that, obviously this quarter, you produced mostly at a 418, but if you make the adjustment for the price, most of this is 418 B material or is there something else going on there? What exactly is that?

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

I've got Jim Pounds in the room, Brian. Have you got a more detailed comment on that than I would likely give?

Jim Pounds - *Harry Winston Diamond Corporation - EVP, Buying/Sourcing*

Yes. I think that what we have just recently sold did have a significant proportion -- a very large proportion of 418 goods within the sales mix, and we also saw some of the first rounds of the RPR goods coming through the system. Those are, as Bob pointed out, are somewhat cheaper goods and smaller goods, which depress the average price of that.

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

Could I just also say there, it's getting slightly technical, and we'd be happy to discuss it with you at more length, Brian, but there is a -- A-418B in particular is both fine grained and has a high heavy mineral content. It, therefore, passes quite an unusually large amount of heavy minerals into the recovery system, and basically swamps recovery to some extent. So, periodically they simply have to run extra hours on recovery just doing fine diamonds. When that happens, you get fine diamonds come through in the next sales mix as it flows on through the process.

Brian MacArthur - *UBS - Analyst*

Okay, but for this quarter you have $147, and obviously that's a mix of all the pipes, and it was some high material from last quarter. But now you're saying what is left is the $104 stuff, which is in that $65 million I assume of inventory. That still seems to be really weighted to the low-value stuff. Is that fair or not?

Jim Pounds - *Harry Winston Diamond Corporation - EVP, Buying/Sourcing*

I would say that the -- the $65 million that we held back at the end of the last quarter was probably more weighted to the better-end goods, and so, it wouldn't be represented by the run of mine production that we sold at the recent sale. So, in other words, it certainly wouldn't be around that low a figure.

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

Just another comment, I just noted from this and the previous call, there's a sort of implication that anything we're holding back is because you just can't sell it or something. You have got to remember that we have a view of the price of polished diamonds as well. So, it's more a question of seeing a mismatch between the price that we have to pay for a polished item versus the price of the corresponding rough item. It makes sense to stock it because that is bound to come back once the market -- the market is adjusting itself all the time. As you know, the rough-to-polished diamond market is a very complex place. It is that kind of decision-making rather than because you just can't sell. These things are all a matter of price.

Brian MacArthur - *UBS - Analyst*

Okay, great, thanks.

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Operator

Des Kilalea, RBC.

Des Kilalea - *RBC Capital Markets - Analyst*

Good morning, Bob, good morning, everybody. Could I just ask a few questions on production. These are 8 million carats a target for Diavik for the whole year on 100% basis. What, if any, hurdles could there be to getting there? And then, looking at the target for the RPRs of 1 million, does that look doable? And then maybe just looking at the way the profile of mining changes from once you're out of 418 pit into underground, will you be getting much more from the 154s as opposed to 418? And then just finally, tax on the mining business, what should we be modeling?

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

Trying to answer the last one, Des, the other ones are more my thing definitely. As you know, and over the history of this, one of the issues is that we get a forecast that is for the year, because that's the only kind of thing that really Rio Tinto are interested in. So, it gets divided into 10 diamond monthly allocations, and we have these quarterly forecasts or just quarters of the whole year. And it's not realistic because the Winter months are always tougher to produce than the months that we're in now. And of course, there's a gap between when the production is easiest and when we are actually getting that material for sale. So, the summary of that is that the production is always back-end loaded in the year.

So, the fact that we haven't produced half of 8 million carats, despite the fact that we're reporting at half of the year isn't really terribly relevant. I talked to Diavik yesterday, we have a joint venture meeting on Monday, but they are well on plan to actually produce 4 million tonnes out of the underground mine, and of course, getting 1 million tonnes out of the open pit is a lot easier, I think in fact, it's probably almost entirely done already and put a [stop up]. Actually getting the diamond production out of all of that is slightly more of a challenge because of the processing rate for the A 418B work where we effectively are running about 6,000 tonnes per day through the processing plant as opposed to a targeted 7,000 tonnes a day when we are running that material.

So, the delivery at the end of the year will be focused on delivering value, so that we can put more material from the 154 South pipes, particularly 154 South, but also 154 North. More of that material through the processing plant at the expense of not doing so much of particularly the RPR, the reprocessed material, then obviously that's a good economic decision that will be made. Which is why I wouldn't become completely focused on 8 million carats. Somewhere between 7.8 million and 8.2 million carats I think is a more reasonable way to look at it, but the idea is to maximize the value that comes in.

Does that answer everything except the tax? Can anybody here answer the tax? Cyrille? We will get back to you on the tax, Des.

Des Kilalea - *RBC Capital Markets - Analyst*

And then, Bob, just a quick one -- the diamond fund, any update on that?

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

Yes, I don't know that we can say much about it. I just grabbed myself by the throat there, but yes, I think it is -- as you can imagine, selling anything of that type has not been easy for the people who are doing it. We're not the people that are selling the fund. Of course, it is being done by an independent group based in Switzerland, but I understand from them from a recent call that they do expect the lead order to appear I think in early October.

Des Kilalea - *RBC Capital Markets - Analyst*

Thank you very much.

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

Thank you.

Operator

(Operator Instructions)

Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

Good morning, gentlemen. I've just got two questions for today. The first is actually a tax question. I'm following up to Des's question. At the group level, what is the expected tax rate going forwards? Just looking at what has been achieved over the last several years, of course, has -- it's been pretty variable historically, and at times has been a pretty high implied tax rate. Should we just be looking at a standard rate of Canadian corporate income tax going forwards, or where would you pitch it?

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

We'll have to come back to you on that one, Ed. You want a pretty detailed answer from that, I think.

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

This is Laura. I just wanted to make a quick comment. Ed, from a cash flow perspective, we did put into the mine plan about a 39.5% tax rate. That is not what you're going to see on the income statement, because there are various things that affect our deferred tax assets and liabilities like foreign exchange that cause a swing in that tax rate. So, unfortunately, I don't know that we will be able to give you good guidance on a forward tax rate because of the changes in the deferred liabilities.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay. Fair enough. And then going on to my second question, which is just on the diamond sales and reading what was in the MD&A for the current quarter. My interpretation is that some of the higher-value diamonds that were held back from sale in the first quarter, or perhaps in the fourth quarter of last year, were sold during the second quarter of this year. And I'm just curious as to how successful that was as a strategy, whether higher prices were achieved in Q2 for those higher-value goods than was anticipated would be achieved in the previous quarters?

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

Jim, you want to answer that?

Jim Pounds - *Harry Winston Diamond Corporation - EVP, Buying/Sourcing*

I think where we saw the level of demand, Ed, was coming mainly in the larger goods and relatively more expensive goods was from the US market. So, we sold through, of course, the better goods to our regular customer, Tiffany, which we always do. But where we saw the improvement in demand was not in the next level, but almost the third level down of our better-end goods where we were able to certainly maintain the price, where we did see a bit of a slippage coming out of the second quarter. So, certainly we were pleased with the price that we received on that range, and we have still been selling those goods now during our August sale last week.

Edward Sterck - *BMO Capital Markets - Analyst*

So, overall, would you say that the strategy has worked as intended?

Jim Pounds - *Harry Winston Diamond Corporation - EVP, Buying/Sourcing*

The strategy has worked in as much as that we weren't selling into an extremely depressed market, which at the time, just before the August holidays, it was difficult to move those goods. So, by holding onto those, we've maintained a price level that has certainly kept us -- .

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

We certainly sold them at a price that we weren't able to sell them at earlier.

Jim Pounds - *Harry Winston Diamond Corporation - EVP, Buying/Sourcing*

Completely right, yes.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, thanks. That's it for me, thank you very much.

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

Thank you.

Operator

Thank you. I would like to turn the call back over to Mr. Robert Gannicott. Thank you.

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

All right, well, just thank you all for joining us, and looking forward to the next quarter. Thank you.

Operator

Thank you for joining today's conference. This concludes the presentation. You may now disconnect, and good day.
