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DDC - Q4 2013 Dominion Diamond Corporation Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Dominion Diamond Corporation fiscal year 2013 fourth-quarter and year-end conference call. My name is Benny 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-IFRS financial measures such as EBITDA. EBITDA does not have standardized meaning according to IFRS and Dominion Diamond 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-IFRS 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.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Thank you and good morning, ladies and gentlemen. Welcome to this, the first earnings call of Dominion Diamond Corporation. Having sold the Luxury Brand business, including the exclusive use of the brand name, we had to change the name of the Company accordingly. Dominion Diamond Corporation reflects a focus on Canadian diamond mine assets and the stable political environment of this segment of the diamond producing world.

We learned a great deal from our profitable ownership of the Luxury Brand. Diamonds are an exceptionally complex mine product and it is the unique advantage to have had this education on the all important end use of that mine product. The sales transaction process brought us closer to The Swatch Group, one of the largest users of diamonds in the world, and we both contemplate a diamond supplier relationship going forward.

I'm now going to have a call over to Wendy Kei, our mining CFO, to present the operational numbers. Wendy is then going to be followed by Jim Pounds, responsible for our diamond supply chain, to discuss the diamond market. I am then going to return to discuss the Diavik mine.

Unfortunately we are still a few days away from closing our purchase of the Ekati Mine, so we are going to strain from discussing its performance. We do however plan a separate call after we have assembled the detailed historical diamond sales information for Ekati to bring you a clear view of the performance of that asset and a view of the mine plan going forward. Wendy?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

Thank you, Bob, and good morning, everyone. With the divestiture of the Luxury Brand segment the Company's consolidated results are supported from continuing operations which no longer include the operations of the Luxury Brand segment as we previously reported. The results of this segment are now treated as discontinued operations for reporting purposes.

Continuing operations include all costs related to the Company's mining operations including those previously reported as part of the corporate segment. As highlighted in our results released yesterday, current and prior periods have been restated to reflect this change.

I will now discuss the financial review of our mining operations starting with the fourth-quarter results followed by our annual results. The Company's consolidated results for the fourth quarter reflected an improvement in the rough diamond market in which we operate.

While consolidated sales from continuing operations increased from the fourth quarter, the prior year operating profit decreased primarily due to cost associated with the Ekati and Swatch transactions. This resulted in net profit attributable to shareholders of $14.9 million or $0.18 per share compared to $16.6 million or $0.20 per share for the comparable quarter of the prior year.

The Company's net profit from continuing operations was $12.1 million or $0.14 per share compared to $12.7 million or $0.15 per share in the fourth quarter of the prior year. Discontinued operations accounted for $2.8 million of net profit or $0.04 per share compared to $3.9 million or $0.05 per share in the fourth quarter of the prior year.

Consolidated sales from continuing operations increased 8% from the same quarter last year resulting from an 11% increase in rough diamond prices offset by a 3% decrease in carats sold. Rough diamond production during the quarter increased 19% from the comparable quarter the prior year.

The increase in production was primarily due to improved grades in each of the kimberlite pipes, partially offset by a 17% decline in ore processed for the quarter. The decline in order processed was due to reductions in processing plant throughput that resulted from changes in the geological composition of the ore.

Consolidated cost of sales for continuing operations was $79 million resulting in a gross margin of 28.2% compared to cost of sales of $72.8 million and gross margin of 28.8% in the fourth quarter of the prior year.

The Company reported SG&A from continuing operations of $10.1 million during the quarter compared to $5.5 million in the fourth quarter of the prior year. SG&A increased $4.6 million primarily due to $2.2 million of expenses related to the Ekati and Swatch transactions and $0.8 million related to stock-based compensation.

On an annual basis our results reflect an improvement over the second half of fiscal 2012 when we witnessed a noticeable decline in the rough diamond market which is yet to recover to the peaks achieved in early fiscal 2012. The Company's net profit attributable to shareholders from fiscal 2013 was $34.7 million or $0.41 per share compared to $25.5 million or $0.30 per share the prior year.

Please note that the prior year results included an $8.4 million after-tax charge related to the de-recognition of the backfill plant associated with paced production at the Diavik diamond mine. Excluding the $8.4 million after-tax de-recognition, net profit attributable to shareholders would have been $33.8 million or $0.40 for the prior year.

Increases in both consolidated sales and operating profit for the fiscal year resulted in net profit from continuing operations of $22.3 million or $0.26 per share compared to $17.3 million or $0.20 per share for the prior year. Excluding the $8.4 million after-tax de-recognition net profit from continuing operations would have been $25.7 million or $0.30 per share in the prior year. Discontinued operations accounted for $12.4 million of net profit or $0.15 per share compared to $8.1 million or $0.10 per share in the prior year.

Consolidated sales from continuing operations increased 19% in fiscal 2013 resulting from a 49% increase in carats sold offset by a 20% decrease in rough diamond prices. Rough diamond production increased 8% for the calendar year primarily due to improved grades in each of the kimberlite pipes with open pit mining concluding in September 2012.

Consolidated cost of sales from continuing operations was $267.6 million resulting in a gross margin of 22.5%, compared to cost of sales of $228 million and a gross margin of 21.4% in the prior fiscal year. The prior fiscal year included a charge related to a de-recognition of the backfill [Paste Plant] associated with the production at the Diavik diamond mine which was $13 million pre-tax.

The Company reported SG&A from continuing operations of $30.2 million for the fiscal year compared to $24.6 million in the prior year. SG&A increased $5.6 million primarily due to $4.2 million of expenses related to the Swatch and Ekati transactions.

In terms of liquidity, the Company had $104.3 million in cash and cash equivalents available at January 31, 2013 and $75 million available on its senior secured credit facility.

A new mine plan and budget for calendar 2013 has been approved by Rio Tinto and the Company. The plan for calendar 2013 foresees Diavik diamond mine production of approximately 6 million carats from the mining and processing of approximately 1.6 million tons of ore with a further 0.2 million tons processed from stockpiled ore.

Mining activities will be exclusively underground with approximately 0.7 million tons expected to be sourced from A154 North, approximately 0.5 million tons from A154 South, and approximately 0.4 million tons from A418 kimberlite pipe.

Included in the estimated production for calendar 2013 is approximately 0.6 million carats of re-processed plant rejects for RPRs and 0.1 million carats from the improved recovery process for small diamonds. These RPR and small diamond recoveries are not included in the Company's reserve and resource statements and are therefore incremental to production.

Let me turn the presentation over to Jim to discuss the diamond market in more detail.

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

Thank you, Wendy. The supply/demand outlook for diamonds still looks fundamentally very attractive. However, in our financial year 2013, that is February 2012 to January 2013, average rough diamond prices were approximately 20% lower than in the same period in the previous year. Part of this of course is linked to the global economy, but the main cause of this was the weakness in polished demand from the major growth markets of India and China.

In China people were still getting married, still buying engagement rings, but the retail industry had built up diamond stocks in expectation of 2012 being another year of 20% plus growth and it painfully wasn't. So it has taken up until November 2012 for the retail industry to work through that overstocking.

In addition, loose polished diamonds and diamonds in watches were an important part of the gift giving market in China. That market also slowed substantially in 2012.

In India the rupee fell 20% against the dollar in early 2012, so that immediately increased the cost of diamonds to the consumer by 20%. And in general the Indian retailer was unable to pass that cost on to the consumer and overall fewer diamonds were consumed. So against a 30% growth of diamond jewelry sales in 2011, 2012 was a year of much more subdued sales.

In addition, the important Indian cutting industry, which is funded by cheap credit, suffered when the rupee falls. So when it fell by 20% there is 20% less credit available to the diamond industry. However, Q4 saw confidence return to the rough and polished diamond market as the major retail sales season delivered on positive expectations.

The market was led by upbeat trends in the USA, which continues to be the largest consumer of diamond jewelry in the world, and that market delivered in the complete range of the retail sector. In the US major retailers led the way and a consolidation of that sector continues as larger players now dominate what was once a fragmented market. This has been a positive development for the diamond sector as it allows a much higher level of planning and structure at all segments of the diamond pipeline.

The build up to the Chinese New Year was tentative as the market looked for direction from the new political elite and their view of the luxury business. However, expectations around the local season were met and the long-awaited restocking by the trade has delivered a [fill-in] to the market that was evident at the recent Hong Kong show.

Growth in the Chinese market may not reach the heavy levels seen in 2011, but a positive trend is evident and this will be of greater benefit to the diamond market overall. In addition, high-end retailers in Europe and the US continue to report substantial diamond jewelry sales to Chinese tourists.

The stabilization of the rupee in Indiana has allowed the retail market there to regain its poise and this has returned to normal patterns of demand which in turn has given impetus to the local diamond polishing market and they greatly benefit having a quick turnover that is delivered by a large retail market on your doorstep.

Other markets continue to deliver expectations and the quarter saw a resilient Japanese market helped by a strong yen. Even Europe delivered some bright spots, although the market there traded down considerably. Small diamonds also returned to improved demand as the reinvigorated watch business needed to restock.

The more confident market allowed the Company to sell down its accumulated rough stock as demand returned and prices rose during Q4 and continue to do so. In fact, since the lows of August last year, rough diamonds have increased by approximately 9%.

One of the highlights of the quarter, to me, was the development of our expanded Indian office which has firmly found its feet, allowing us to enter into direct sales to the world's largest rough market. And this allows a dynamic pricing to be passed between our two sales markets of Antwerp and Mumbai. I will now pass the call back to Bob.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Thanks, Jim. The Diavik mine has been fully transitioned to an underground mine with production from three separate kimberlite pipes interconnected with common underground infrastructure. The only vestige of its open pits is a stockpile of about 300,000 tons of ore taken from the last bench of the A418 open pit.

As the operation beds into underground mining as its sole focus it becomes easier to identify efficiencies and improve cost and operational methodology. This has led to the mine being ahead of forecast for both production and operating costs so far this calendar year and there is the prospect of further improvements.

Work continues on progressing the engineering and capital costs estimates for the A-21 kimberlite pipe with the objective of bringing this into the mine plan for the final production years. At the same time, further drilling of the lower sections of three currently producing pipes has identified ore reserve and resource additions.

Since these are extensions of already well-known pipes it has not been found necessary to bring these extensions up to ore reserve standard, but instead to accept the resource level confidence is sufficient for including in the mine plan.

Looking forward to the future, our next exciting development of course is the closing of the acquisition of the Ekati Mine from BHP Billiton which, as I said earlier, is now just a matter of days away rather than weeks. As mentioned in the introduction, we expect to release the mine plan model with diamond price information for the various components on or about April 24, possibly a little earlier than that, but we believe we can do it by April 24 and this will be followed immediately by an analyst call the next morning. We also expect to release an updated mine plan for Diavik at the same time.

We've acquired a first grade operating team at Ekati and we look forward to using them to build a future not just for ourselves but for our work force and other stakeholders at various levels in the broader community of the Northwest Territories and Canada itself. So thanks for listening to us and we are now happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Oliver Chen, Citigroup.

Nancy Hilliker - *Citigroup Global Markets - Analyst*

This is actually Nancy Hilliker filling in for Oliver Chen. My question is given the enthusiasm for improved demand for rough diamonds in India, how should we think about further price increases from here in 2013? And maybe how should we model this as it applies to you and your thoughts on the mix?

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

Okay, Nancy, I will take this, it is Jim Pounds here. We have actually seen -- I mentioned we have seen prices grow 9% since August last year and probably 6% in the first quarter of this year. The diamond -- the year is probably divided into the first quarter, middle and last quarter in terms of restocking it to restock the manufacturers.

So we saw the price growth as expected in the first quarter this year. This will probably plateau for a couple of months and then increase in the midyear and then further increase towards the end of the year. This is a normal pattern of price growth during a healthy market. So I would be very -- haw can I say -- pushed to actually predict what the price growth this year is, but we are very, very happy with what we have seen so far.

Nancy Hilliker - *Citigroup Global Markets - Analyst*

Okay, thank you. And as a follow-up, can you update us on the life of mine for both Diavik and Ekati? What is the best way to think about the terminal here?

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

As the money plans appear at the moment, these will be -- certainly the Ekati Mine plan will be modified as we get further into our management of it. But at the moment the mine life at Ekati is about 2022 and Diavik is to about 2025.

Nancy Hilliker - *Citigroup Global Markets - Analyst*

Okay, thanks --.

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

If you are trying to build a model here you should get more detail from (inaudible), because the production of carats and the values of those different carats vary as we go through that mine plan.

Nancy Hilliker - *Citigroup Global Markets - Analyst*

Okay, thank you very much and congratulations again.

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

Thank you.

Operator

Des Kilalea, RBC.

Des Kilalea - *RBC Capital Markets - Analyst*

Thank you, everybody. I wonder if I could ask just if you can give us any outlook for the SG&A. You did have unusual conditions which boosted it in the quarter. Can you give us any guidance for where it should be over the next quarter, maybe over the next 12 months? And then if I might just kind of ask Jim about India and credit availability, what he sees for India and the banks being able to kind of support the [diamantes] to restock?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

It is Wendy. In terms of SG&A, I would take our quarterly results for Q4 and the annual and then just strip out the transaction cost and that is a good estimate for where the SG&A will become in fiscal 2014 for us.

Des Kilalea - *RBC Capital Markets - Analyst*

Thanks, Wendy.

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

Our SG&A on the mining side has always been very consistent, has not been lumpy at all. And those transaction costs are what is causing it to be lumpy in Q4 and then on an annual basis.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

It will also be lumpy in Q1 again, right? It is going to be another strange looking quarter there from that point of view.

Des Kilalea - *RBC Capital Markets - Analyst*

Of course. Thank you.

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

On to your credit question, Des, I think we have seen the banks that lend to the diamond market have a good look at the state of play in that market at the moment. And whilst they are not extending their credit lines, they are certainly supporting what is existing there at the moment as far as I can understand.

So against a slightly reduced amount of (inaudible) that we have seen on this market as De Beers have reported, people are really not -- to maintain their restocking levels they are probably not extending their credit levels too far. So at the moment it seems healthfully in balance. Although going forward we will probably see other players enter into this arena which will give some sort of (inaudible) to the credit availability.

Des Kilalea - *RBC Capital Markets - Analyst*

Thanks, Jim. Could I just ask maybe Bob, is there any scope for major change in that 6 million carat guidance from Diavik over the next calendar year?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Yes, I think it is very likely that they might be able to achieve a further 200,000 tons from underground to bolt on there. I think that is sort of an internal target that they have for instance. So I think there is a good possibility of that so you can add on another 600,000, 700,000 carats per ounce.

Des Kilalea - *RBC Capital Markets - Analyst*

That is great. Thank you very much.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Thank you.

Operator

John Hughes, Desjardins Securities.

John Hughes - *Desjardins Securities - Analyst*

Thank you, Operator. Good morning. Just a couple of quick questions, one maybe for Wendy. On the balance sheet in the fourth quarter we know there are the assets for sale and liabilities for sale. I am just wondering in first quarter of 2014 or fiscal first quarter, how -- should we expect any sort of I guess major impact on the P&L of the acquisition when all these -- the balance sheet changes formally to reflect the asset sale?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

John, the Q1 balance sheet is going to look nothing like the balance sheet that we have had in the past. As you can imagine, we will be stripping out the remaining two months of the Luxury Brand results and then adding an acquisition in. We are currently working through that and we will shed some more light on night that once the acquisition closes.

As you can imagine under IFRS, we have to fair value all the assets that we are acquiring and we are in that process right now. So unfortunately I don't have an answer for you until we actually close Q1. But your same lines being current assets and current liabilities for the Luxury Brand division and then you will see the fair value of the assets we are buying for Ekati for the core and buffer zone.

John Hughes - *Desjardins Securities - Analyst*

So once the fair value is determined, does that dictate whether we will see goodwill, that type of thing?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

Absolutely.

John Hughes - *Desjardins Securities - Analyst*

So the P&L in Q1 could be materially affected as a result of a change in the balance sheet?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

Not necessarily the P&L, the balance sheet will look vastly different, the P&L probably won't.

John Hughes - *Desjardins Securities - Analyst*

Okay that helps. Thank you. I guess Bob, just on the Diavik plus the Ekati, I am wondering how you are going to manage these two mines. Are you going to manage these completely independently or are --?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Well, (inaudible), John. We have only got one to manage at the moment, Rio Tinto managed Diavik. So the early challenge is to manage Ekati. We (inaudible) obviously with an operating group, the people that are the BHP parent employees are just the very top, not so much the mine management itself but the asset management. We are obviously going to take that on.

But I am moving to (inaudible) myself, I've already got a home there, it is not a strange place to me at all, as you know. Also we have taken on a guy -- we're in the process of taking on a guy called [Brendan Bell]. Brendan I've known for a very long time, he's (inaudible), he has been the Minister of Natural Resources in the Government of the Northwest Territories. He is currently the chairman of the power corporation up there.

And so Brendan is going to come on and take care of government relations at all levels, so including aboriginal governments, territorial government, federal government as well as functions like HR, he will also be in charge of procurement, things like this.

There is currently a very competent mine manager for Ekati who is there, Paul Cuthbert. And we have not been able to have any meaningful conversations with Paul about what he wants to do in his future. But we will do that. But we certainly have -- there are other alternatives open to us.

I actually noticed just recently that I think with the suspension of a lot of major projects by some of the large mining companies that there is actually kind of a bit of a looseness in the senior level -- senior technical level employment market in the mining industry that we haven't seen for a few years. So I don't think there is anything there to intimidate us frankly.

John Hughes - *Desjardins Securities - Analyst*

You raise a good point. I mean we have heard rumors -- of course Ekati has been for sale for a while, people were leaving. And I am just wondering, is it -- I would assume one of the bigger challenges initially will be to establish an operating or reestablish an operating team and senior (multiple speakers).

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Certainly that is true and we are well aware of that and we are just going to get up there and get on with it. It is not as if we haven't thought of what we need to do and who the people are that we can bring in here, but obviously it is not really the stuff of a public call, if that's okay.

John Hughes - *Desjardins Securities - Analyst*

Oh, no,no, that is fine. I just want to recognize that as one of the challenges for sure. And sorry, the last point, again more strategic wise, Bob. With Diavik, of course Rio Tinto looking to sell, with what you have acquired in Ekati now with your 40% in Diavik in terms of your balance sheet change that's pending, at least visually, are you sort of done there? Is your balance sheet supporting the assets that it can really support. Or are you (multiple speakers)?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

There's certainly headroom. So we picked up -- we paid some bills and so on, they were $740 million from the Swatch transaction, I mean these are very rough numbers and you will probably wince as I go through this. But about $740 million there. We are going to give $500 million of it to BHP.

But we have also just completed a credit facility for $640 million which we have available to us now. So I think we have certainly got the headroom to undertake a transaction with Rio on Diavik should that be available at the right price.

John Hughes - *Desjardins Securities - Analyst*

Right, is that a focus right now or are you just more -- I mean with the Ekati acquisition you are sort of focused on getting people in place and understanding of resource and mine planning, etc.?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Well, yes, of course we are, of course we are going to be dug into that immediately. It doesn't mean that we can't keep -- and obviously we are still involved in Ekati, we own 40% of Ekati. I'm going to a technical meeting there tomorrow and in fact we then have a joint venture meeting on Monday, so (multiple speakers). Sorry, Diavik. So we are permanently in communication with Rio. It is not something that we have to pick up and put down.

John Hughes - *Desjardins Securities - Analyst*

Appreciate it. Thank you, Bob. Thank you, Wendy.

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

Thank you.

Operator

(Operator Instructions). Tanya Jakusconek, Scotia Bank.

Tanya Jakusconek - *Scotia Capital Inc. - Analyst*

Thank you very much. I have three questions, so maybe I will just start with my first one which is for Wendy. Just on the credit facility, can you give us an idea, Wendy, what the holding cost of the credit facility is per annum? And then just some of the terms of the credit facility in terms of interest payable?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

We will provide that in Q1 if that is okay. We are still in the final stages of that negotiation. I prefer not to say anything right now if that is okay; we will come back to you on that.

Tanya Jakusconek - *Scotia Capital Inc. - Analyst*

Okay, all right. I guess my second question then would be -- actually my second and third would be for Bob. Bob, on the deferral of the A-21 pipe at Diavik, which was supposed to come in I think in 2017; and I think previously the mine life had been to 2023. And you mentioned now that Diavik is going to 2025. Would it be safe to assume that it has just been deferred by about two years?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

First of all, good morning. And I think you have to look at that as I think it is unlikely that Rio Tinto will want to address A-21 until they resolve what is happening to their diamond portfolio. They are not likely to want to take on the CapEx themselves right away.

The delineation of the expanded tonnage and the other pipes gives them the luxury of the breathing room to be able to do that, because you don't end with A-21 being like a stranded resource at the end of the mine life because you have actually got some additional mine life from underground. So it gives them the ability to do that.

I think the way they would view it, I mean we are going to have this meeting tomorrow, but at the moment the way I believe they would view it is that they have kind of gained themselves a year but not much more than that. So, in other words, a decision will have to be made by an owner of Diavik sometime in the next 12 months.

Tanya Jakusconek - *Scotia Capital Inc. - Analyst*

Okay. Because if you just look at what you have in indicated and inferred resources from A-154 South and North and A-418, there is about 2.64 million tons that you could kind of put over to try and feed obviously the processing facility from 217 onwards.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Yes, that's right. There is another -- almost two years there.

Tanya Jakusconek - *Scotia Capital Inc. - Analyst*

So that is why I was thinking it almost gives them the breathing room of about two years, and then we would have to then bring in the A-21.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

That is right. Again, the other thing to keep in mind is that if these mines were to come under common ownership, then you have a lot more flexibility. Then A-21 can become feedstock to one common processing plant. There is a lot more options that become available if you have common control of the two operations.

Tanya Jakusconek - *Scotia Capital Inc. - Analyst*

No, no. I understand that. Then, Bob, just my final question again for you, and I understand that you are closing your Ekati deal and will get that to the mine plant. But just conceptually, can you just talk to us qualitatively about some of the synergies that you see between Diavik and Ekati?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

I am sorry, but this is -- we're behind a confidentiality agreement there that we can't really cross. I am sorry but, no. (Multiple speakers) we are only a kind of week away from being able to tear that up and then I can talk to you about it.

Tanya Jakusconek - *Scotia Capital Inc. - Analyst*

Okay, so when we have the press release on the 24th there will be more on synergies and just what you see in the area?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Yes, although keep in mind I'm not going to spend too much time thinking about synergies with something that I can't realize. I will think a lot more about synergies if it was clearer that we could become the owner of Diavik. Especially -- that is not clear at the present time.

Tanya Jakusconek - *Scotia Capital Inc. - Analyst*

Okay. All right. Great. Thank you very much.

Operator

Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

Good morning. So I have just a handful of questions today. The first is on Q1 results and how the retail segment will be treated within them. The retail segment still going to be maintained as a discontinued operation up until the data transfer and that will appear as one line in Q1 results? Or it is the effective change of ownership going to be the beginning of the year?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

No, it will still appear -- it will be consistent as to the way we report Q4, so they will appear as one line in the P&L, which is discontinued ops and they will continue to appear. There won't be anything on the balance sheet because by the time we close and report Q1 we would have sold them. So you will see in the Q1 results the reflection of the actual sales of Swatch and then the acquisition of both the core zone and the buffer zone for the Ekati diamond mine.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, thank you. And then secondly just on those transactions, can you give us a rough indication of what the remaining transaction costs will be that presumably would come through with Q1 results as well?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

They would be substantial for both acquisitions. To give you an estimate --.

Edward Sterck - *BMO Capital Markets - Analyst*

Or perhaps a range?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

I would say in a $20 million to $30 million range, because under IFRS none of these costs can be capitalized, everything has to be expensed.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, that is fantastic. Thank you. And then just two questions from an operational or slightly conceptual perspective perhaps. Obviously the end game with Diavik and Rio Tinto's strategic review is still unknown. If they make a decision not to sell would Rio still be approachable, do you imagine, to discuss some level of optimization between Ekati and Diavik? Or is that just not going to be something that would be on the table?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

It has never been discussed between us, but one assumes that anything that makes economic sense ought to be considered. But on the other hand, these two separate operations have sat very close to one another for a long time without there being any interface. So I don't know. It is a question for Rio Tinto frankly (inaudible).

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, thank you. Then my final question is just on A-21. Can you remind me where we stand on the permitting process?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Where we stand on the --?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

Permitting.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Permitting process? It is permitted. It was fully permitted in the national mine plan.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, fantastic. That is all for me. Thank you very much.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Okay, thank you.

Operator

Ned Davis, William Smith & Co.

Ned Davis - *William Smith & Co. - Analyst*

Good morning. Bob, I was just wondering, the comments on the A-21 pipe, the suggestion reading between the lines was that it is really not economic to do the investment at today's diamond price. Am I reading too much into that, or is it just that it is just a big CapEx and not necessary right now given the current level of production?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

No, it is economic at today's prices, certainly. It is a question of how economic, because they haven't worked out a full capital cost for it yet, but that is partly what this meeting is about tomorrow. But it is certainly economic. But it is not a -- I mean it is not a world beater of a project on a stand-alone basis, but it is comfortably economic.

Ned Davis - *William Smith & Co. - Analyst*

Okay. And could you give a little bit more color on the CapEx expectations for Diavik over the next two years? Can you say much about that (multiple speakers)?

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

I think sustaining capital -- leaving A-21 aside, it is really almost [a target] sustaining capital. And I seem to recall we were looking at numbers on the order of about [$]40 million, $50 million. What is it Wendy?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

$51 million.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Yes. So that is sustaining capital and then of course A-21 -- I mean I don't know what the number is yet, but you would be looking at somewhere on the order of $500 million to do that with a conventional diamond.

Ned Davis - *William Smith & Co. - Analyst*

Okay, thank you. Look forward to the update on the 24th or whenever. Thank you.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Me too actually. I am looking forward to really getting our heads into this one.

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

Ned, it is Wendy. Actually it is not $51 million -- $28 million, our 40% share is what we disclosed in the MD&A for fiscal 2014 for us.

Ned Davis - *William Smith & Co. - Analyst*

And you haven't put a projection out for 2015 yet?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

No, we haven't.

Ned Davis - *William Smith & Co. - Analyst*

Okay. Thank you.

Operator

[James Bender], Scotia Bank.

James Bender - *Scotia Bank - Analyst*

This is a follow-up question for Wendy. On this sale of retail and the impact on the Q1, you mentioned that under IFRS that the assets now will be at fair value. Do you see a big or a material difference between the numbers at year end?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

No, the fair value comment -- the fair value comment related to the acquisition of the Ekati diamond mine, not the sales at Swatch. Those assets will not appear on our balance sheet at the end of Q1, it was the fair value weighing of the Ekati assets.

James Bender - *Scotia Bank - Analyst*

Then based on the numbers for the sales of luxury as of year-end, I calculate a gain of about $500 million and that obviously assumes that it is not materially different at the time of close. Is that a reasonable number?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

That's a reasonable (inaudible) for your purpose, yes, it is.

James Bender - *Scotia Bank - Analyst*

And will there be a material tax impact on that?

Wendy Kei - *Dominion Diamond Corporation - VP & Corporate Controller*

What we can say is that the Company does not expect to have any material current taxes as a result of the sales to Swatch.

James Bender - *Scotia Bank - Analyst*

Okay, (multiple speakers).

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

Is that our last question?

Operator

Yes, it is.

Bob Gannicott - *Dominion Diamond Corporation - Chairman & CEO*

(Multiple speakers) this morning and we look forward to getting back to you again with the Ekati information. That will be the -- I think we are all looking forward to that, you and ourselves. Thank you.

Operator

Ladies and gentlemen, that concludes your conference today. You may now disconnect.

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