THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

DDC.TO - Q1 2015 Dominion Diamond Corporation Earnings Conference Call

EVENT DATE/TIME: JUNE 12, 2014 / 12:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Richard Chetwode *Dominion Diamond Corporation - VP, Corporate Development and IR*

Bob Gannicott *Dominion Diamond Corporaton - Chairman and CEO*

Wendy Kei *Dominion Diamond Corporation - CFO*

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

Chantal Lavoie *Dominion Diamond Corporation - President Dominion Diamond Ekati Corporation*

Brendan Bell *Dominion Diamond Corporation - President, Dominion Diamond Holdings*

CONFERENCE CALL PARTICIPANTS

Des Kilalea *RBC Capital Markets - Analyst*

Oliver Chen *Citigroup - Analyst*

Richard Hatch *RBC Capital Markets - Analyst*

Edward Sterck *BMO Capital Markets - Analyst*

Brian MacArthur *UBS - Analyst*

Tanya Jakusconek *Scotiabank - Analyst*

Steven Butler *TD Securities - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Dominion Diamond Corporation's fiscal 2015 first-quarter earnings results conference call. My name is Erica and I will be your operator for today's call. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I'd now like to turn the call over to Richard Chetwode, Vice President, Corporate Development and Head of Investor Relations. Please go ahead.

Richard Chetwode - *Dominion Diamond Corporation - VP, Corporate Development and IR*

Thank you, operator. Good morning, everyone, and welcome to our fiscal 2015 first-quarter results conference call. On the call today is Bob Gannicott, Chairman and CEO; Wendy Kei, Chief Financial Officer; Chantal Lavoie, Chief Operating Officer; Jim Pounds, Executive Vice President, Diamond Sales; and Brendan Bell, Executive Vice President, Community Affairs, all of whom will be available to answer questions after the presentation.

Before we begin, I would like to point out that this conference call will include forward-looking information. Various material factors and assumptions we used in arriving at this information and actual results could differ materially. Additional information about these factors and assumptions and the risks that could cause actual results to differ materially from our current expectations are detailed in our most recently filed annual information form and MD&A which are publicly available. Our most recent results also include a reconciliation of certain non-IFRS financial measures to the most directly comparable IFRS measures.

With that, I will hand the call over to Bob Gannicott.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Thanks, Richard, and good morning, ladies and gentlemen. Welcome to our earnings call for the first quarter of our financial year 2015.

We are pleased to be able to present a strong set of results that reflect improved operational performance as well as a stronger market for our diamond products. We have also continued to advance our Jay Project, which represents the long-term future for the Company.

Our Chief Financial Officer, Wendy Kei, will start by taking us through the financial results. She will be followed by Jim Pounds, who is actually in Antwerp shepherding a diamond sale this week, who will discuss the diamond market, and then Chantal Lavoie will discuss the operational performance of both Ekati and Diavik. Brendan will then come on to discuss permitting in Lynx and Jay and I will then return at the end to report on the progress with the Jay Project itself. Over to you, Wendy.

Wendy Kei - *Dominion Diamond Corporation - CFO*

Thanks, Bob, and good morning, everyone. The first quarter marked the anniversary of the sale of Harry Winston, Inc. to the Swatch Group, and our acquisition of the Ekati Diamond Mine. Our first-quarter results have been our strongest so far since the acquisition. Both the Diavek and Ekati Diamond Mines have exceeded our sales, production and average price per carat expectations during the first quarter.

Our first-quarter results generated net income of $10.7 million, or earnings per share of $0.17, compared to $3.2 million or earnings per share of $0.04 in the prior year.

We held two rough diamond sales during the first quarter and reported sales of $175.5 million, operating profit of $30.7 million and cash provided by operating activities of $48.7 million. Sales continue to be stronger than expected due to a combination of diamond prices, increase in volumes from Diavik and better than anticipated grade and recovery at Ekati. Overall, the Diamond Market saw an increase of 8% in rough diamond prices since the beginning of the calendar year.

Our first-quarter sales figure of $175.5 million does not include the carats produced from the Misery South and Southwest satellite pipes

as this is classified as being in preproduction. During preproduction, sales and costs from Misery South and Southwest carats have been applied as a reduction in mining assets. During the first quarter, the Company sold an estimated 0.1 million carats of Misery South and Southwest for an estimated total of 6.9 million, with an average price per carat of $75.

Had the Company included these sales, our operating profit would have been $4.2 million higher.

The Company continues to focus on the Jay Project and spent $8.7 million in exploration during the quarter. Bob will provide an update later on this call. Included in finance and other income is a $2.4 million gain on sale of our security monitoring group to Swatch. That is a one-time transaction.

Turning to our Diavik segment, during the first quarter, we sold 0.6 million carats of rough diamonds with a market value of $82.7 million and a cost of goods sold of $56.2 million, resulting in gross margins of 32% and EBITDA of $43.9 million. Carat production and average price per carat were 16% and 9% respectively, higher than expected. Average price per carat achieved during the first quarter of $142 was impacted by the carryover of some lower value inventory at April 30 that will be sold during the second quarter.

The improved gross margins resulted from higher production, which lowers the cost per carat. At the end of the first quarter, we had Diavik inventory on hand with a cost of $65 million and an estimated market value of $85 million.

Now turning to the Ekati segment, during the first quarter, we reported sales of $92.8 million and cost of sales of $81.4 million, leading to gross margins of 12.3% and EBITDA of $30.1 million. Our average price per carat was $359, which was 11% higher than our expectation.

First-quarter sales would have been $99.7 million with operating profit of $14.1 million and gross margin of 15.6% had we included the sales from the carats sold from the Misery satellite pipes.

At the end of the first quarter, we had Ekati inventory on hand with a cost of $170 million and an estimated market value of $200 million.

Our balance sheet continues to be strong with cash and cash equivalents of $212.5 million, restricted cash of $115.6 million and rough diamond inventory with an estimated value of $285 million. Our supplies inventory and trade and other payables have increased during the quarter primarily due to the winter road restocking at both mines. The Company had working capital of $573.7 million at April 30.

The next two years will see the Company reinvest back into Ekati capital expenditures. The Company spent $49.2 million on Ekati capital during the quarter and $6.8 million on Diavik sustaining capital. The Diavik Mine is at a stage where it only requires sustaining capital but this is very different from Ekati where the Company plans to spend approximately $180 million during this fiscal year on planned capital expenditures and an assumed average Canadian/US dollar exchange rate of $1.10. This includes $95 million on the continued development of Misery pipe and $50 million toward the development of the Pigeon Pipe.

Let me turn the presentation over to Jim.

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

Thanks, Wendy, and good morning, everyone. Last year in 2013, rough prices rose just under 5% from January to June based on good consumer demand fundamentals only to weaken in the second half of the year, primarily as a result of the tightening of the credit to the diamond cutting centers, most notably in India, caused by a very weak rupee and economic and banking issues across all sectors and the very weak retail demand also in India.

In 2014, what has changed from last year is that whilst the strong demand from the US and China has continued, the Indian rupee has now strengthened. India has elected a business-friendly Prime Minister, himself a former Chief Minister of Gujarat, where the diamond business is based and we are seeing a pickup in demand for diamond jewelry from India.

This year, rough prices are up nearly 8% to June, but unlike last year, we don't expect them to weaken and encouragingly, polished prices are following this trend. Indeed, the fundamentals all point to prices being steady or even slightly up from where we are today over the rest of the year.

Credit remains an issue for the diamond industry. The tightening in lending we saw last year remains but counterintuitively, this may be a good thing. As in the past, too much cheap credit has meant that the kind of good fundamentals we are seeing at the moment often led to speculation in the rough market with rough prices outperforming polished. Inevitably, there would be a hard correction down the line.

Now banks are requiring their diamond customers to put up some of their own capital alongside the bank's capital, which didn't happen in the recent past and this has meant that the financing of the diamond business is slowly becoming more like the financing of other sectors. The current restrictions on credit have actually meant that rough has moved much more in line with polished prices, in other words, driven by actual demand.

The area's strongest demand remains for rough diamonds that deliver a solitaire between 20 and 80 points, though there is very good demand for solitaires up to 2 carats. In terms of quality, while last year good demand was primarily in commercial goods, this year it is across all qualities.

Turning to Dominion, as you know, we have 10 sales a year and in the first quarter, we completed two sales. One of the main reasons why rough diamond inventory was high on April 30, because we started the third sale in the last few days of April but it was only completed and the funds received from that sale in the first week of May, which will therefore count as a Q2 sale.

Also in the second quarter, we have a further sale happening at the moment, which is why I am in Antwerp, and another sale happening in mid-July.

At the end of Q1, we had inventory with an approximate market value of $285 million of which we held back diamonds with a market value of approximately $65 million, what we describe as discretionary goods. These discretionary goods include around 10 million of samples that will be needed as long as we operate the Ekati Mine. The remainder is made up of special stones we put together to sell as a collection and other goods we chose not to sell because we couldn't get the price we thought that was correct when relative to the polished outcome.

Between three sales in the quarter, we would expect to sell most of the inventory held on April 30, including the majority of that discretionary stock. In addition to the inventory held at the end of April, we'd expect only one more delivery which could be sorted and sold and therefore included in the second quarter. This would be a Diavik delivery, and just to reiterate, Ekati has a longer pipeline of sorting in sales than Diavik because we take ownership of the diamonds on delivery from the Ekati Mine as opposed to only taking ownership of the Diavik goods when they are delivered to us by the Diavik Joint Venture.

In the third quarter, we will be holding two sales, one in August and one just after the Hong Kong show in late September and we don't have a sale in late October because that is when the Diwali holiday takes place. In the fourth quarter, there will be a further three sales.

Next month, we are introducing a system of 18-month contract to our current client base which we expect over time will account for up to 90% of the value of Dominion's production. The contracts will guarantee volume but the price will remain market related with twice yearly tenders when we will tender a proportion of those contract goods to confirm prices. The remainder of the production will be sold as we do today.

The successful revitalization of the Canada Hallmark received great interest at the Las Vegas show. It has become very evident that there is a great interest at retail level for Canadian diamonds of [assured provence].

Thank you, and over to you, Chantal.

Chantal Lavoie - *Dominion Diamond Corporation - President Dominion Diamond Ekati Corporation*

Thanks, Jim. Good morning, ladies and gentlemen. You will have seen from our recently published Q1 production numbers that both Ekati and Diavik are performing ahead of plan. Let's first talk about Diavik which continued to perform above expectation.

As you probably saw from the numbers we released yesterday, Diavik exceeded planned production by 16% in terms of carats produced. This positive variance was driven mainly by the increase in both mine and process tonnages with grade being essentially on plan. Ongoing work is being carried out to further optimize the underground development plan and the associated production schedule.

Underground productivities are closely monitored with people and equipment managed efficiently. On the processing side, (technical difficulty)

Operator

Thank you for your patience. Your conference call will resume shortly. Okay, Richard, you may proceed.

Chantal Lavoie - *Dominion Diamond Corporation - President Dominion Diamond Ekati Corporation*

Good morning, ladies and gentlemen, sorry -- apologies for this, we had a bit of a technical issue on our side here. There was a temporary power failure. So again, I was talking about the performance from the underground Diavik.

Continuing on the processing side, changes to the maintenance and schedule have been implemented, adding rigor and therefore improving their effectiveness. Initial changes on some of the x-ray units on the recovery areas have shown some promising results and further changes are being evaluated including the possible addition of further grease tables.

Similarly, there is an ongoing work being done to further optimize the process plan in terms of reliability and recovery. More specifically, maintenance shutdown schedules are being reviewed, focusing on areas of higher wear.

But what I primarily would like to focus on today is some of the work that we are doing at Ekati, which we are now -- which we have now owned and operated for a year. Overall, the mining operation are very much proceeding according to plan. As an update to the recent Ekati Q1 production release, the drilling program at Fox deep has commenced and is targeting the untested deep portion of the pipe below the existing resource in hopes of discovering a more prospective type of kimberlite.

As you saw from our Q1 results, Ekati exceeded plan in terms of carat production. This was driven by better recoveries and higher than expected grades.

On the recovery side, the first quarter saw a noticeable increase of 15% in predominantly smaller diamonds recovered at Ekati, driven by the initial operational changes we made early on. I will come back later on our plans for the processing facility.

From a grade perspective, all our ore sources have performed better than expected. Ore from Koala underground achieved an average grade of 1.13 carats per tonne compared to mine plan of 0.59 carats per tonne while process from the Fox pipe achieved an average grade of 0.34 carats per tonne versus a plan of 0.21 carats per tonne. The material process from the Koala North kimberlite, the majority of which is inferred material, achieved an average grade of 0.87 carats per tonne.

The grade from the Koala North reserve ore which we finished processing last year was only 0.6 carats per tonne. The Misery satellite kimberlite we processed last year achieved a grade of 1.3 carats per tonne. In the first quarter of this year, the material processed from the satellite kimberlite achieved an average grade of 1.52 carats per tonne.

Note that this material is not included in the reserve and is therefore incremental production.

So the Q1 performance is the result of a combination of factors, optimizing the processing plants capacity, higher than expected grade in the reserve feed and an increase in diamond recovery.

Let me share with you some of the initiatives we have taken to increase diamond recovery in the process plant. Greater discipline has been brought to the maintenance and operating of the high pressure grind roll, what we call the HPGR. This has resulted in less course feed being pushed through the heavy media separator modules which has had a positive impact on the overall liberation of smaller diamonds from the kimberlite plant feed. The two heavy media separated modules have historically been run at high hourly feed rates which lead to relatively high loss for smaller sized diamonds.

Running the HMS module at lower and more consistent operating rates has resulted in higher diamond recovery across all feed types. Additional cyclones have been ordered to expand the capacity of the HMS module and will be available for installation by late summer. Improved operating procedure for monitoring screen panel wear have also contributed to the increase in the recovery of small diamonds.

Work is ongoing to reestablish the recrush capability in the Ekati processing plant. Some small diamonds, trapped in larger piece of kimberlite are still going out straight to tailings as Coarse Ore Rejects. Once the recrush circuit is recommissioned in the fourth quarter of this year, it will be possible to channel this oversized material back to the crusher. We have completed the upgrade of our x-ray circuits. In addition, there are currently only two grease tables operating in the Ekati processing plant. The design of three additional grease tables has been completed and these will be installed and operational by the end of this fiscal year.

The plant is working very well at 4.35 million tonnes a year, better than it was at the 4.65 million tonnes forecast in the previous mine plans in terms of recovery. The additional heavy media separator and grease table capacity is not intended to up the throughput but to continue to maximize the recovery at this new rate, therefore maximizing the value extracted from the ore.

Certainly, we have continued to recover more diamonds than planned and there is more work to do. Once the process improvement have been substantially completed, we intend to incorporate a higher recovery rate into an updated reserve statement. We look forward to keeping you up-to-date with progress.

I will now pass the call over to Brendan.

Brendan Bell - *Dominion Diamond Corporation - President, Dominion Diamond Holdings*

Thanks, Chantal. We have been very pleased with the progress that has been made on permitting for the Lynx project. On April 30, 2014, the Wek'eezhii Land and Water Board issued the land use permit for the Lynx project and made recommendations to the Minister of Environment and Natural Resources, the Government of the Northwest Territories on an amendment of the Ekati water license to incorporate the Lynx project. The Minister signed the amended Ekati water license on May 30. We appreciate the timely decision by the Minister on a file to transition from the Federal Government after these responsibilities were transferred to the GNWT on April 1.

The Lynx regulatory process has illustrated the importance of our engagement activities over the past year, has strengthened our relationships with government, regulators, communities and other stakeholders. The entire process has taken only nine months and has resulted in a land-use permit and Ekati water license amendment that fully meet Dominion requirements for the project.

At the same time we continue to advance the Jay Project, which beyond Misery and Pigeon, represents the future of Ekati. This project continues to proceed on schedule; scoping sessions for the project were held in January of 2014 and the Review Board published the final terms of reference and interim work plan for the project on February 21 of this year. For the past 14 months, we've been working with our stakeholders through public meetings and workshops to obtain public input on the project.

Recently, Dominion Diamond introduced a revised plan for mining the Jay kimberlite pipe, which simplifies construction and significantly reduces the overall environmental disturbance compared to the initial plan. This positive change to the project will reduce the overall environmental impact by significantly reducing the overall footprint, reducing the scale of the dewatering from 46 square kilometers to 4.2 square kilometers, reducing the area of disturbance to fish habitat, reducing the size of the fish out of the lake, also limiting any changes to adjacent water bodies, utilizing existing infrastructure, notably the Misery and Lynx pits for water management, building fewer roads and dikes resulting in less disturbance for caribou that migrate through the area and wildlife generally, and simplifying closure requirements.

The senior management team, led by Bob Gannicott, has been meeting with communities, government regulators, and other stakeholders to advise them of the change to the project. Response to these changes has been overwhelmingly positive. This support provides even greater assurance of meeting our regulatory and construction schedules to bring Jay into production in late 2019 to meet the completion of the current ore reserves.

Our schedule for the Jay Project remains the same. Our current focus is the preparation of the Developer's Assessment Report, or DAR, that will detail all aspects of the project for the environmental assessment process as per the terms of reference issued in February. We intend to submit the DAR to the Board in Q3 of 2014. Once we submit the DAR to the Review Board, the analytical and hearing phases of the environmental assessment process then lead the Board into making a recommendation to the Minister with a decision expected in the fourth quarter of 2015.

Once this decision is issued, we expect the water license and land-use permitting process to take six to eight months. Based on our current schedule, we anticipate having the necessary permits in hand to begin construction in the third quarter of 2016.

Thank you and I will now pass the call back to Bob.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Thanks, Brendan. Since our last call, we have simplified the Jay Project considerably. Rising diamond prices and information from the winter drilling program have enabled a more compact design for the project, which no longer relies on the upper part of the small but high-value Cardinal pipe to supplement early revenue. The revised project uses a 5 kilometer long dike to enclose just the Jay kimberlite pipe. 3.2 kilometers of this dike will be in water of a depth less than 5 meters and the remainder in depths of 5 to 10 meters.

The lake bed footing material for this dike profile has been drill tested and an engineering design for prefeasibility level plan is now being completed. Core drilling to establish the design parameters of the open pit was also completed this spring and engineering tests on this drill core are underway.

The revised plan involves less than 10% of the original lake area, water volume and fish population. As such, it has significantly reduced environmental impact and will be faster to construct and prepare for mining. The Mackenzie Valley Environmental Impact Review Board have established a work plan for the environmental assessment of the project that sets out a 13-month review period before a decision and report on the environmental assessment is issued. This review period begins the submission of the Developer's Assessment Report, which Brendan just referred to, and is targeted for the third quarter of 2014.

Work continues on the prefeasibility study which when completed towards the end of this year, will bring the open pit resource of Jay into ore reserve status.

Our mining operations are performing well, Chantal has explained, in an environment of strengthening rough diamond prices, as you have heard from Jim, while we made good progress on advancing a project that represents a long-term future into an era where diamond demand is projected to escalate against fixed or perhaps even declining supply.

So thanks for listening to us. Sorry about the break in the middle. We have been doing the rest of the call through a cell phone here, but we are now ready to try and handle your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Des Kilalea, RBC.

Des Kilalea - *RBC Capital Markets - Analyst*

Thank you. Good morning, everybody, and good afternoon to Jim. The CapEx -- the Jay Project, Bob, I guess you understand better the upper reaches of Jay now and so you don't need Cardinal or is it simply because of the timing that you don't need Cardinal?

Then the other thing is perhaps on -- when you do bring Jay into production, would Chantal be looking at maybe kind of changing some of the recovery process to use some of this more advanced x-ray technology that a lot of mining companies are bringing in? Thanks.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Okay, well Hi, Des. Yes, so, Jay -- the reason for this is really that a better understanding of the diamond population and the modeling of it, particularly in the upper part of the pipe, produces a diamond value that doesn't justify the extra capital and environmental disturbance that is needed in order to get the extra material out of the upper part of the small Cardinal pipe.

Another side of this -- and we are still working on this -- is that there is another pipe that we are looking at that seems to -- at least in the early period of looking at this -- Sable seems to perhaps have better diamond values in the upper part of it, better diamond values in all of it actually, than had been originally thought, and we may be able to use this as a bit of a buffer as well.

So this is, I guess, the impression I am trying to give you is there are still some things that are moving around here. But what became increasingly clear was we didn't need to create greater disturbance and the implications of risk to permitting timeline that that involves in order to make Jay a profitable project in its own right. So that is the first part of it. The next part was --

---

Chantal Lavoie - *Dominion Diamond Corporation - President Dominion Diamond Ekati Corporation*

Good morning, Des. On the recovery, obviously, one of the things right now we are concentrating on the existing pipe. Also we have been in discussion -- what we are starting to look at is when Jay comes in, what are the changes we believe are required to maximize and get value extracted from Jay. So definitely the area -- recovery area where the x-rays are, we are going to have a look at the existing, what is in place versus what is available in terms of new technology. We are also going to be looking at the front end of the plant when it comes to the reduction sizers and high pressure grinding rolls, again to make sure that what we have in place is adequate or whether we need to expand or change.

So that is going to be part as -- like Bob mentioned -- as we are refining the feasibility study on Jay, we will be looking at what if any changes should be made to the process plant ahead of Jay coming into production.

Des Kilalea - *RBC Capital Markets - Analyst*

Thank you very much.

Operator

Oliver Chen, Citi Research.

Oliver Chen - *Citigroup - Analyst*

Hi, congrats on solid results. Regarding the Jay Project update, Bob, the Developer's Assessment Report, what would you highlight as the key aspects which will be focused on in terms of that report and what would you prioritize as the top two to three things that will be analyzed?

Also, Jim, on your comments about the new way in which you are guaranteeing volume on the selling contracts, does that have implications for how we forecast and model the selling of the diamonds going forward in terms of the reduction of standard deviation there?

Then lastly, if you guys could refresh us on your priorities towards use of cash and your philosophy towards leverage, that would be great. Thank you.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Right. Okay, let's -- so we start with the questions on the DAR, Developer's Assessment Report. Oliver, the Developer's Assessment Report is really -- it is a very long form document that covers all aspects of the project, not just -- it is not like the feasibility study; it incorporates things that you would find in a feasibility study. But as well as that, it includes things like the social impact of the project and what this means to employment levels and economic impact on communities and Northwest Territories, even things that are that sort of, if you like, distanced from the practicalities of mining.

Also of course, a lot of the environmental work, the impact on migrating caribou populations, the impact on the water flow in the area and the chemistry of the water. All of those -- I would -- if you wanted me to pick the things that are most important, it is going to be water chemistry, because of the fact that that is something that is carefully looked at because of fish populations, and road construction and truck haulage issues as they relate to the caribou migration that happens twice a year, of course, once in each direction. Those would be probably the two top items that will be looked at in there.

Brendan, is that right?

Brendan Bell - *Dominion Diamond Corporation - President, Dominion Diamond Holdings*

Yes, I think the other is, as you mentioned, socioeconomic impacts and employment levels. Yes, we will submit this, it is generally well understood we know we are operating this mine, we understand the employment levels and what Jay proposes so that those employment levels will continue well on into the future.

So it is not a theoretical exercise we can point to existing results, but Bob is right, those are the main aspects of this DAR.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

What would be the follow-up question then?

Wendy Kei - *Dominion Diamond Corporation - CFO*

Jim on selling contract.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Jim, do you want to talk about that?

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

Yes, absolutely, Bob. Hi, Oliver. When we say we are intending to offer volumes, volume driven contract to our clients, really the volume that is mentioned in the contract will be an intention to offer as De Beers call it, but it will be a target line. Once they have this target, our customers then are able to go and talk to their customers with confidence that the supply will be coming.

Now, obviously if we get more goods, they will be getting more carats within the parameters of the sales boxes we are offering them, and there may be times where we are not able to meet our levels due to any sort of delay and we will supply them a bit below. But what we are offering them is a target amount of carats. Does that help, Oliver?

Oliver Chen - *Citigroup - Analyst*

Yes. That's great. Thanks. Lastly, just on your philosophy towards cash.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Well, yes, I know this is certainly a hot topic and I would just like to emphasize that we -- there is no reason for us to sort of want to try and pour cash at all. And I would also point out, I am a large shareholder, and I would be very glad to see a dividend stream and I think a dividend stream is what we are likely to do when we feel that we can do it.

We have to balance that against the following things that we don't yet have clarity on. One is whether or not real tender with Diavik will elect to do the A-21 project, which would likely be a capital commitment on our part for our 40% of around about $200 million, perhaps a little less, but it is an investment for us at that scale. We need much more accuracy on the capital required for Jay and the schedule of expenditures that are required for that.

And then we need to just, I think, take a look at exactly how we might fit the development of another pipe like Sable into this and what requirements Chantal will also have for modifications for the process plant, the things that are being tested and really look as if they would be very productive. How do we embed those in a fully commercial way going forward on a process plant design, a circuit design that can comfortably handle a large volume of the upper part of the Jay Pipe, which of course, the upper parts of all these pipes tend to contain some muddy sediment and muddy sediment in the kimberlite does tend to get -- you need more done at screening and particularly thickening capacity and things like this.

So we need to have all these things settled and at least perhaps done in a fully engineered away, but at least pretty close estimates of what all of these costs will be and when they are going to be incurred.

And finally, we have to deal with the reclamation bonds which at the moment the requirement for those is still in abeyance. They are now in the hands of the Government of the Northwest Territories who are being as helpful to us as they possibly can be, but we have to -- we are going to have to provide either cash or something that replaces the cash in order to satisfy the requirement for the reclamation bonds.

But once we have got all of that in order -- and I don't think -- it shouldn't take us beyond the end of the year to get all of that defined, then I think we can actually think about a dividend stream.

I also don't believe, by the way, that a dividend stream has any particular -- a dividend stream will in my view will be rewarded provided it is clear that there is an ore reserve base within the Company that can support the dividend stream for more than 10 years.

At the moment, we don't have that. With the inclusion of Jay into reserve, the open pit part of Jay into reserves, with the prefeasibility study being completed, we will have that. Therefore, a dividend stream with that kind of forward view to it should become something of significant value.

Oliver Chen - *Citigroup - Analyst*

Thank you. Thanks for all the details. Very helpful. Best regards.

Operator

Richard Hatch, RBC.

Richard Hatch - *RBC Capital Markets - Analyst*

Thanks very much. Good morning and just one for Wendy, one on the accounts, Wendy. Just on your cost guidance you say that your cost of sales guidance is $490 million with $345 million and cash costs and then $125 million D&A. I see you took a $40 million working capital adjustment for Ekati in the first quarter. Does that mean that you are looking for a significantly positive working capital adjustment for the next three quarters of the year to make that $490 million? Is that right?

Wendy Kei - *Dominion Diamond Corporation - CFO*

Richard, yes, it is. it is going to be balanced through the remainder of the next three quarters.

Richard Hatch - *RBC Capital Markets - Analyst*

Okay, so I should build in quite solid positive adjustments to build up to that $490 million, right?

Wendy Kei - *Dominion Diamond Corporation - CFO*

Yes, please.

Richard Hatch - *RBC Capital Markets - Analyst*

Okay, thanks.

Operator

Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

Good morning, everyone. So I've got a couple of questions. The first is on the plan, the revised plan for Jay. Is it possible just to provide a little bit of a -- sort of a comparison with the original BHP plan, which it sounds like is more similar to versus the previous plans to encapsulate a broader and wider area of the lake.

Then the second question is for Jim, just on the 18-month contracts, I didn't quite catch how the pricing structure of that would work and I was wondering if you could just elaborate on that again? Thank you.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Okay, so compared to -- the BHP plan called for -- there was like a keyhole, like a causeway built out from the shore and a dike built in and actually quite deep water over the type of the pipe itself. Therefore, of course, immediately around that, it is fairly deep water. Water over the very center of the pipe is, off the top of my head, is slightly more than 40 meters deep, for instance.

Because we have done a biometric survey of the entire lake by this time, what we are doing instead is doing a Meadowbank style dike because we are able to place it in the shallow water -- the shallowest water available, if you like, to encircle the Jay Pipe. But it is an earlobe dike in a sense, like Diavik, it is a dike that goes out from the shoreline broadly circles the pipe and then returns to the shoreline.

There is two advantages to this. One is, as you can see from what I said, although it is a 5 kilometer long dike, which by the way is about the same length as the dike that encloses the A-154 and 418 pipes at Diavik, it's about the same length as that, to give you scale, but it is in significantly shallow water. So 3.2 kilometers, it is actually in water that doesn't even get to be 5 meters deep. And the balance -- the other 1.8 kilometers is an water that is between 5 and 10 meters deep and most of that is actually closer to 5 than it is to 10.

So it doesn't require the same level of cut off or design as is required for Diavik; it is more like what has been done at the Meadowbank project. So the difference between that and what BHP have planned -- BHP had planned to do what was -- simply copy what had been done at Diavik except that they were going to build a causeway out into the lake and then build a fully enclosing a circular dike where the dike was -- the radius of the dike was designed to be compatible with the radius of a pit to extract an open pit reserve.

The concept that we have followed is a dike that actually stays in shallow water, therefore it encloses a bigger area which makes the possibility of doing an underground blockade afterwards realistic without there being a risk of disturbing the dike footing. But it is also because it is in shallow water and therefore the hydraulic pressure is much lower between the up-and-down stream side, it doesn't require the same level of cut off as was required in the original BHP design. So does that cover that one?

Edward Sterck - *BMO Capital Markets - Analyst*

Yes, thank you. So just one question on this. Presumably there is sort of [inverted] leaky dikes that you've talked about in the past, so they will require some level of ongoing pumping after construction as well?

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Yes, that's right, although I think we are likely to -- there is a balance to be achieved there. You can improve what you put in as a sort of cut off rule and reduce the leakiness or you can go with lots of leakage, more pumping. My guess is we're going to end up going closer to the former than latter. So yes, it will be a leaky dike, but it won't be an excessively leaky dike.

But if -- I don't think the amount of pumping that is required is not -- compared to the pumping that you've got to have installed to deal with the water that is going to come in from mining the open pit anyway, the water that is going to flow in through the rocks as they are exposed, the pick-up water from the dike is not a big item.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, great. Thank you.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

There was another part to your question.

Edward Sterck - *BMO Capital Markets - Analyst*

The second question was just on the pricing structure for the contracts.

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

Yes, well, we will be, as usual, on the market listening to the market, talking to our clients, which is the first part that we are very much aware of market movements just by our own sources of information and intelligence. We also have the new Canada mark web portal that will indicate the way that polished is trading and give us a direct result on that. But more importantly, we will be holding back some of the sales parcels to hold tenders twice a year to give our clients comfort, our shareholders comfort and our Board of Directors comfort that our pricing is consistent with the market. So really a sort of three-pronged approach to pricing.

Edward Sterck - *BMO Capital Markets - Analyst*

Excellent. Thanks very much.

Operator

(Operator Instructions). Brian MacArthur, UBS.

Brian MacArthur - *UBS - Analyst*

Good morning. I just want to go back to the change in the Jay Pipe. You talked about getting more detail on the diamond distribution and it sort of sounds like -- is the diamond distribution better in grade and/or quality just in the top part of the pipe that you talk about and obviously that helps you get your NPV returned faster or is it better homogeneously throughout the whole pipe? I am just trying to get over how much variability there actually is here.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Well, that will soon be -- we have now got -- once we get the feasibility -- the pre-feas, Brian, we will be able to show you the bench -- well I guess we could show you that beforehand really -- but that is the bench by bench value.

What it is is the upper part of the pipe -- the upper part of the pipe has a finer size distribution than the lower part of the pipe. But value actually is consistent all the way down because the grade becomes better -- the grade becomes better as the size distribution goes the other way. So you have sort of got lower valued diamonds but more of them versus higher valued diamonds but less of them.

So actually, the rock value per tonne is more consistent than you might expect, but nonetheless, it does -- there is clearly some lower value material at the top, and it then quite rapidly increases up to a maximum level and then sort of peters off a bit from that going down.

But, yes, look, it is lower -- we always do have a slower grade at the very top. That is always because you get non-kimberlite material slumping in at the top of these kimberlite pipe which gives you two problems. One is it lowers the effective grade of what you are mining and the other is material that is sloughed in is muddy and that muddy material has to be handled in the processing plant.

But it is something that Diavik and Ekati are familiar with doing this at the beginning of every pipe and so we will be set up in order to handle that.

Brian MacArthur - *UBS - Analyst*

Okay, great. And just a second simple question. Just for Ekati, you're forecasting $125 million in depreciation for this year. You did $20 million in the first quarter; I get it that there is two sales versus three. But even if I sort of simply took $125 million divided by $10 million I get $12.5 million for a sale which I would've gotten like $25 million for this quarter versus the $20 million that you did. Is there -- I realize it is not critical for cash but just on an earnings basis, the depreciation on Ekati, how should I actually try and think about that as I go throughout the year because it's -- the deal and the allocation and the inventory, just what should I start to think about on a quarterly basis?

Wendy Kei - *Dominion Diamond Corporation - CFO*

So, Brian, I would take the guidance forecast we gave you, tracked off the Q1 results in actuals and then I would take that number and divide by 7 so we have three sales next quarter -- two sales next quarter, three and then two, and then take that number and allocate it on a per sale basis.

Brian MacArthur - *UBS - Analyst*

Perfect. Okay, and then I can just do that carrying it forward. We are kind of through all the one-off adjustments and things like that. Is that fair?

Wendy Kei - *Dominion Diamond Corporation - CFO*

Yes, we are done all the one-time adjustments.

Brian MacArthur - *UBS - Analyst*

Great. Thanks very much.

Operator

Tanya Jakusconek, Scotiabank.

Tanya Jakusconek - *Scotiabank - Analyst*

Yes, good morning, everybody. I just have a couple of questions. Maybe for Chantal and Wendy, just on Ekati and Misery and how we are ramping up through the year, can we just review how Q2, Q3, Q4 is going to look as we ramp up on a production basis, Chantal, for yourself?

And then, Wendy, when are we going to go commercial so that we understand when all of a sudden we have to contribute to the revenue line? That is my first question.

Chantal Lavoie - *Dominion Diamond Corporation - President Dominion Diamond Ekati Corporation*

Good morning, Tanya. I guess from a production perspective, right now most likely we will go into commercial production on August of this year, okay? That is the target right now. I don't think there is going to be any changes to this. So what you are going to see over the course of the next quarter is essentially pretty consistent with the production of Q1. So as we are doing the stripping, we encounter the satellite ore bodies from Misery Southwest, Misery South and also Northeast that we talk about that we have done some -- so we are going to see pretty much the same percentage in terms of production coming out of Misery.

And then really with the big production coming -- starting to come next year as we get close to the main zone. So essentially that is what it is, kind of a status quo; it is very similar from quarter to quarter, and really it is going to change when we get into Misery Main next year.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay.

Wendy Kei - *Dominion Diamond Corporation - CFO*

In terms of the sales, as Chantal mentioned, the plan currently is to go into commercial production in the Misery satellite pipes on August 1. So the Q2 results that we have will still -- any of the revenue and costs associated with it will be a reduction in the capital asset and then starting Q2, we will be able to recognize that as -- in our sales line.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay, okay. Thank you very much for that. Then my second question, just coming back on Jay and the program. Maybe, Bob, can you just share with us what is left to be spent for the remaining part of the year? You have done all of the drilling, so what is left from now until the pre-feas is going to be tabled to the market?

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

In other words, the amount of cash that is required. I think we have a budget --

---

Tanya Jakusconek - *Scotiabank - Analyst*

Yes.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

-- I think we have a budget for $50 million for the year, didn't we of which we have extended in the first quarter --

---

Wendy Kei - *Dominion Diamond Corporation - CFO*

$8.7 million.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

$8.7 million. I think that will be about right, Tanya. Obviously, a lot of engineering work now. And I am optimistic that we -- that it will be well before the end of the year that we could put something in front of you, rather than just before Christmas, as it were.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. So it is just engineering left to be done -- like drilling has all been completed?

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Yes, the drilling has all been completed. There is some other physical work. One of the things that is operated at this point is something called a West Bay Well, which is really a drilled well that allows sampling of [ponding] water, water that is within the rock at various levels.

This is something that -- this wasn't done with the earlier developments at Ekati and I don't think it was done at Diavik either, but it allows you to get very accurate estimates of what the total dissolved solids are in the water that is going to come out of the wall rocks when you actually start the open -- well, when you operate the open pit. And so this allows us to accurately define how we handle the water that comes out of the mine as we are in production.

And by the way, that is why I on an earlier question, I responded that we are likely to go to some effort to make this dike as unleaky as possible because the less water that we have to handle that has got dissolved solids in it, the cheaper it is.

But anyway, there is that physical work going on. Otherwise, really, there is nothing other than pure engineering going on from now until completion of the pre-feas.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. Then just maybe for Jim, just on the Vegas show, it is interesting that we are seeing continued results, positive diamond pricing given it is seasonally a weak time. Can you just maybe share with us from that Vegas show like what exactly -- like where are you seeing the demand? Is it mainly US buyers? Is it certain types of diamonds? You mentioned the 0.2 to 0.8 that are doing well. Maybe just a little bit more on this Vegas show.

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

Yes, yes, Tanya. I think what we saw was a good mood that spread not only as I said in my script, that it wasn't just the commercial areas that are doing well but the actual demand is spreading to the better end and some of the weaker colors like in the browns and the KLM colors, the more yellowish stones.

But it's -- I think the US demand is particularly strong, and particularly strong in the bridal area of the solitaires that I also mentioned, but we are also seeing this level of demand coming from China, which is good for the same sort of area, for the bridal there as well. There is a lot of report about luxury goods not doing so well, but really for a good steady bridal demand area, that is very positive.

But to me where the area of growth this year will be will be in India. In India, I think in July we will see quite a positive first budget coming out of the new government, and India to me is a really good driver across the board because of the various areas of India also have very different tastes from the very, very top-quality down to the sort of larger, cheaper diamonds.

So what is -- as I said, what is encouraging to me is that it isn't really as focused as it was this time last year and it really is an across the board a good steady demand that have delivered the consistency in demand and the consistency that we have been able to hold the prices in the first 6 months rather than seeing the fadeaway that we saw last year.

I hope that sheds a bit more light on things, Tanya.

Tanya Jakusconek - *Scotiabank - Analyst*

And maybe, Jim, just to remind me about, what are sort of the import duties right now on diamonds into India and are you hearing of any changes to these?

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

No, the import duties are still quite low, and I will have to get back to you on the exact amount. And we are -- (inaudible) -- we are not hearing of any changes in those. In fact, we will probably see quite a lot of the restrictions on the movement of gold into India lifted as well by the new government.

Tanya Jakusconek - *Scotiabank - Analyst*

No, I appreciated the gold one. I just wondered if there was anything flowing through into the diamonds?

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

Nothing that we have heard of that would affect the diamond sector, no.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay, so I will look forward to getting that import duty from you.

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

Yes, absolutely, I will do that, Tanya.

Tanya Jakusconek - *Scotiabank - Analyst*

Thank you. Thank you, that's all my questions.

Operator

[Steven Butler], TD Securities.

Steven Butler - *TD Securities - Analyst*

Bob, sorry, Steve Butler here on TD mining sales side. Don't worry; I am not going to cover you anytime soon. I am a salesman. But, Bob, a question for you. On the Jay Pipe, BHP, did they ever release a conceptual study whatsoever for Jay? Are we still swinging in the dark a little bit as to the economics of Jay? And how -- if we aren't, though, how has the redesign that you are considering for the dike -- is it going to be a substantial reduction in volume of dike material required here and do you have an estimate of that? Thanks.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Yes, okay. Well, no, there isn't any conceptual level study. I think we should go straight with a prefeasibility study. The trouble with conceptual level studies is they give relied on as if they were prefeasibility studies when in fact of course they are not. But it won't be very long before we have got that.

The changes -- the big -- really the big change in terms of pure economics on the project leaving aside the environmental issues and so on, the big improvement in this project is that it is faster. You get to build only one dike that you could start from two ends, two points on the shoreline where you can start and make them meet in the middle. So the dike can be built relatively quickly, and the volume of water that has to be pumped out is only 10% of what we were contemplating -- less than 10% of what we were contemplating before -- which means that the time required for a (inaudible), before the pumping can begin and the time for the pump out itself is very much shorter than it is with the other one. And that allows us to keep a good grip on a timeline that can allow us to mesh with the exhaustion of the current reserve base without there having to be any kind of hiatus in production at the site.

So that is the biggest benefit to it. If you looked in a broader way though, there were something like 42, I think, 42 kilometers of road that were going to be involved in getting to the various places that had to have dikes and spillways constructed and so on. Those roads are all considered to be of significant importance to caribou migration, that the roads are considered to interfere with migrating caribou, whereas this design requires only a few kilometers of road. It is just another just another 6 or 7 kilometers just off the existing Misery Road.

So here again, it is shorter, quicker to the roads but also a much kinder thing on the environmental impact.

Steven Butler - *TD Securities - Analyst*

Okay, appreciate that, Bob. Thanks very much.

Operator

Des Kilalea, RBC.

Des Kilalea - *RBC Capital Markets - Analyst*

Thanks, Bob, quite a lot of what you have and Brendan focused on is actually water and some of the questions. Given what is happening at Snap Lake where the underground water seems to be kind of high in dissolved solids and chlorides than is wanted, is this going to be an issue that we should be thinking more of both for Ekati, for Jay, for Diavik? Is this a new issue or is it becoming more prevalent as the mines get older? How should we be looking at all this?

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

No, I would say it is not -- Chantal bursting to give an explanation of Snap Lake here, but he will do that in a minute. But it is certainly not a new issue. I think the new thing is that -- to the best of my knowledge -- Chantal will be able to confirm that -- nobody did it at West Bay well, at Snap Lake before they developed it. So yes, he is agreeing with me, and I know that that wasn't done at Diavik. It wasn't necessary with the earlier Ekati pits because they were so far away from the lake that there was really very little hydraulic pressure to deal with here that was pushing the water around.

So it is just the first set of Ekati pits were basically very nearly dry. The Ekati -- the Koala underground is very much a dry mine. Where it certainly becomes a problem in that the water that is trapped in the rock contains significant chloride levels in places and that chloride in turn leaches out from the rocks, because that makes the water somewhat aggressive chemically, you then leak out things like phosphorus and phosphorus is particularly important because it is the kind of head of the food chain, if you like. It is phosphorus that is required to create photosynthetic plants and organisms and they are the beginning of the food chain on which smaller animal life in the lakes (technical difficulty) upon. Goes all the way up through the food chain to the fish.

So these are important things and knowing what you are dealing with before you start the project is certainly important, which is why we elected to put in this West Bay well. It is a million-dollar thing to do and it is a technology that wasn't generally available several years ago and it -- we are taking results from it as we speak. But the early result is we -- the first result gave us less than a third of the level of total dissolved solids, in other words, chlorides and phosphate and so on. It gave us less than a third of what we had been at least anticipating. What we had in our initial model for water handling was 3 times what we are actually experiencing.

So so far it is very good news and it means that we will have a pretty simple water management regime. But broadening that out to other projects, there is no question this is an area where about 40% of the land surface is covered in water, and not only that, although it is covered in water, the area is a desert. The only reason this water sits there is because it has got ice sitting on it for most of the year and therefore the water can't evaporate very much and it gets topped up with the snow melt. But this is not an area where there is a lot of rainfall to dilute things.

So these lakes are sensitive to the additions of any sort of foreign chemical material and that is -- that in turn impacts the fish population and that is an important part of the environment up here. So it is always going to be closely scrutinized and water, mine water certainly has to be managed.

Chantal, have you anything you want to add to that?

Chantal Lavoie - *Dominion Diamond Corporation - President Dominion Diamond Ekati Corporation*

Right, I think you've -- you pointed out the one major difference, I think, that is West Bay well, to understand the water that we are going to be encountering when we started the open pit and later underground. That is something that wasn't done before, at least I know for sure over at De Beers. I am not too sure about Diavik. Obviously now we have got the advantage of the knowledge of what these mines have experienced and one thing also you have to realize is the quality of waters that is being pumped at Snap Lake and at Diavik is much higher, much higher than what we have experienced and what we are expecting over at Jay.

Having said all that, like Bob said, we are capturing this very important information that right now is showing that the levels of dissolved solids in the water is probably a third of what we expected and use in our modeling.

Des Kilalea - *RBC Capital Markets - Analyst*

Thanks very much.

Richard Chetwode - *Dominion Diamond Corporation - VP, Corporate Development and IR*

Are there any other questions, operator?

Operator

No, we have no further questions. I will now turn it back over to Robert Gannicott to close the call.

Bob Gannicott - *Dominion Diamond Corporaton - Chairman and CEO*

Okay, well then I think just to say thanks very much for staying with us on the call here through that -- the power outage that we had to stick handle there. It has obviously been a pleasure to report a quarter of this type. We think we -- these are not just -- the effects that we are seeing here are not just a flash in the pan; these are the changes to the processing plant that Chantal has engineered, the improvements in the grade, particularly from the underground that we are coming to rely on more as we go forward and so on are actually embedded improvements.

And meanwhile, we are progressing very well with the objectives of developing the Misery reserve that becomes the production -- the big part of the production base for the Company, starting from the end of next calendar year, and of the development of the Jay Project that represents the long-term future of Ekati.

While we are able to do this in an environment where diamond prices are rising, of course, is extremely helpful.

So thanks for listening to us and we look forward to getting on with another quarter now. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. Everyone may now disconnect and have a great day.
