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## CORPORATE PARTICIPANTS

**Richard Chetwode** *Dominion Diamond Corporation - VP of Corporate Development & Head of IR*

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

**Wendy Kei** *Dominion Diamond Corporation - CFO*

**Jim Pounds** *Dominion Diamond Corporation - EVP of Diamond Sales*

**Chantal Lavoie** *Dominion Diamond Corporation - COO*

**Brendan Bell** *Dominion Diamond Corporation - EVP of Community Affairs*

## CONFERENCE CALL PARTICIPANTS

**Des Kilalea** *RBC Capital Markets - Analyst*

**Oliver Chen** *Citigroup - Analyst*

**Edward Sterck** *BMO Capital Markets - Analyst*

**Yen Voo** *Nomura International - Analyst*

**Brian MacArthur** *UBS - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to Dominion Diamond Corporation FY15 second quarter earnings results conference call. My name is Adrian and I will be your operator for today's call. At this time, all participants are in a listen-only mode and we will conduct a question-and-answer session towards the end of today's conference.

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the call over to Richard Chetwode, Vice President, Corporate Development, Head of Investor Relations. Please go ahead.

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**Richard Chetwode** - *Dominion Diamond Corporation - VP of Corporate Development & Head of IR*

Thank you, operator. Good morning everyone and welcome to our FY15 second 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 them will be available to answer questions after the presentation.

Before we begin, I'd 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.

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

Thanks, Richard, and good morning, everyone. Welcome to the earnings call. It's always a pleasure to be able to report a quarter that exceeds expectations.

In addition to the good fortune of improved rough diamond prices and better-than-expected grades, we have also embedded improvements to diamond recovery, rough diamond marketing and cost control efficiencies to deliver a story that continues to improve.

Wendy Kei, our outgoing CFO, will now take us through the financial results. She's going to be followed by Jim Pounds to report on our diamond sales and the diamond market in general.

Chantal Lavoie will follow to report on the mining operations of both the Ekati and Diavik; and Brendan Bell will provide an update on various permitting initiatives that form a central part of our strategy for the future. I am going to return to discuss progress on the Jay Project and to close the call and then we'll handle your questions after that. Wendy.

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**Wendy Kei** - *Dominion Diamond Corporation - CFO*

Thank you, Bob and good morning, everyone. Q2 was another strong quarter for the Company in all aspects with both the Diavik and Ekati diamond mines exceeding our sales and production expectations. Our second quarter results generated net income attributable to shareholders of $26.6 million, earnings per share of $0.31 compared to a net loss attributable to shareholders of $13.9 million, or negative earnings per share of $0.16 in the prior year.

We completed three rough diamond sales during the second quarter and reported sales of $277.3 million and operating profit of $46.5 million. The two mines added to our cash position by generating cash provided by operating activities of $108.5 million for the quarter.

Sales continued to be stronger than expected, due to a combination of diamond prices, increased volume 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 second quarter sales figure, $277.3 million does not include the carats produced from the Misery South and Southwest kimberlite pipes, as this is classified as being in pre-production. During pre-production, sales and cost of Misery Satellite carats have been applied as a reduction of mining assets.

During the second quarter, the Company sold an estimated 0.1 million carats of Misery Satellite for an estimated total of $10.6 million, with an average price per carat of $79. Had the Company included these sales our operating profit would have been $7.4 million higher.

The Company continues to focus on the Jay Project and spent $6.8 million on exploration during the quarter. Brendan and Bob will provide an update later on in this call.

Turning to our Diavik segment, during the second quarter, we sold 1.0 million carats of rough diamond with a market value of $107 million and cost of goods sold $78.8 million, resulting in gross margins of 26.4% and EBITDA of $54.7 million. Carat production and the average price of carat were 24% higher and 12% lower, respectively, than expected. Average price per carat achieved during the second quarter of $112 was impacted by the carryovers from lower value inventory at April 30.

The improved gross margin is also from higher production which lowers the cost per carat. At the end of the second quarter, we had Diavik inventory on hand with a cost of $40 million and an estimated market value of $65 million.

Now turning to the Ekati segment, during the second quarter, we reported sales of $170.3 million and cost of sales of $142.5 million, leading to gross margin of 16.3% and EBITDA of $62.3 million. Our average price per carat was $308, which was 6% higher than the prior year.

Second quarter sales would have been $180.8 million with operating profit of $34.2 million and gross margins of 19.4% had we included the sales from the carats sold from the Misery Satellite pipes. At the end of the second quarter, we had Ekati inventory on hand with a cost of $150 million and an estimated value of $250 million.

Included in the inventory of $250 million is $95 million of inventory that would have been available for the August sale; $35 million of strategic stocks, which includes rough diamond samples; and $120 million of inventory in various stages of the sorting cycle. The Company now expects commercial production for accounting purposes from the Misery Satellite pipes to commence on September 1.

Our balance sheet continues to be strong with cash and cash equivalents of $267.8 million, restricted cash of $116.1 million, and rough diamond inventory with an estimated value of approximately $315 million.

Now let me turn the presentation over to Jim.

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**Jim Pounds** - *Dominion Diamond Corporation - EVP of Diamond Sales*

Thanks Wendy. Good morning, everyone. Overall, rough prices, which rose approximately 8% in the first quarter of calendar 2014, were flat through the second quarter.

There was a slight softening of prices at the top end while there continued to be solid demand for commercial goods. The prices of smaller and cheaper goods remained flat.

At the retail level, demand for diamond jewelry in the US remains strong as witnessed by last week's solid Tiffany and Signet sales figures. Remember the US accounts for approximately 39% of global consumption.

In China, there was a weakness in the sales of diamond jewelry at the top end as a result of the continued anti-corruption drive which has been reflected in the fall in jewelry sales in Hong Kong. Though this is more than compensated for by continued strong sales from demand for jewelry in what we would refer to as the mass market, which remains positive with a continued growth in bridal. Local sales in China continued to show good growth.

Demand in India is soft but it's too early to tell how strong Indian demand will be this year since by far the most significant period for diamond jewelry sales in India is the wedding season, which predominantly sits between September and February. Anecdotal evidence from Japan suggested demand for diamond jewelry in Japan, which grew significantly ahead of the sales tax increases in April, has been weak since.

Demand for diamond jewelry in Europe is steady though Europe is not a large consumer of diamond jewelry. Demand in the Middle East has been robust but it remains to be seen what impact the well-documented problems in the region will have in the future.

There are two factors that have impacted rough and polished prices which do not relate to the retail fundamentals but it's worth spending a couple minutes on. Firstly, the subject of financing available to the diamond cutting and polishing industry which, of course in reality, really means the financing available to the Indian diamond industry, since 95% of all diamonds are cut and polished in India.

There, credit remains tight and while banks do not seem to be giving out any increase in the credit available to the Indian industry, the Indian banks are certainly more friendly to the industry post the election of Prime Minister Modi. But as I mentioned in the last quarterly conference call, it is precisely the lack of availability of cheap credit that has stopped rough prices running too far ahead of polished prices, as they historically tended to do when polished prices are rising, followed by the inevitable correction and that is a good thing.

Secondly, the subject of stocks of polished diamonds in the pipeline. For the past year, there has been a large stock of polished stones tied up in the certification process. Certification, of course, is the independent assessment of the color, quality and carat by one of a number of gemological laboratories worldwide.

The majority of polished diamonds of good quality over 20 points, which means above 0.2 of a carat, will get certified. Almost every diamond above 50 points, or almost every polished diamond better than SI2 quality and in fact, some of the larger I quality stones will be certified.

The Gemological Institute of America is, by far, the largest certification laboratory in the world and they were swamped by demand. 30 to 90 pointers are still taking 75 days to gain certification and 1 carats and above are taking 45 days. At one point, it was taking over 100 days and it's worth pointing out that I'm talking working days, not calendar days, to get those certified.

So that tied up a substantial amount of polished diamonds at a time of strong consumer demand and many diamantaires didn't want to have their diamonds tied up for three months or more. So there was a strong growth in the prices for non-certified goods, especially in the 30 to 90 points, helped, of course, by the fact that this is the core product for the US bridal market.

The GIA have made a substantial effort to speed up the process and released a large number of certified goods onto the market in the second quarter that impacted the pricing of the D to H color and the SI polished ranges of all sizes down in the second quarter as a result. Overall, polished prices are up approximately 4% this year so far and this is a period in the year when there is little business transacted in the polished market and seasonally, one might expect a short-term weakness ahead of the fourth calendar quarter for diamond jewelry and consumption.

How rough diamond prices perform to the end of this year will be a reflection of that fourth quarter demand for polished diamonds and jewelry. In terms of our own sales during the second quarter, we sold rough diamonds with a total value of $287.9 million. In the most recent sale, we have now introduced our new 18-month sales contracts.

Now originally, we envisioned about 90% of our sales by value being through these contracts, guaranteeing a specific supply of carats to customers each sale. There's such an enthusiasm for this that we'll be selling approximately 100% of our production on a contractual basis. There will, of course, need to be -- to balance variations in mine deliveries to short-term sales contract expectations.

At the end of the second quarter, we held goods with a market value of approximately $315 million. If I was to break this down within this figure, we had approximately $195 million of rough diamonds at market value, which were available for sale at the end of July. Included in this figure are $45 million of goods consciously held back from the previous sale and that $45 million includes approximately 15 million of rough diamond samples, which will not be sold in the foreseeable future, which we need to sort against.

The other 120 million of inventory consisted of goods actually at the Ekati Mine as well as Diavik and Ekati goods at various stages of the sorting process. During the third fiscal quarter, we will have two sales.

We completed the Antwerp part of the first sale last week and the Indian part of that sale is still in progress. The second sale of the period will be held at the end of September.

Historically, the total sales in the third quarter tend to be smaller sales, not just because there are only two sales in the period but because it is period leading up to the long Diwali holiday in India. We would expect to sell most of the goods available for sale at the end of Q2 minus, of course, the 15 million samples and also maybe another half sales cycle worth; 10 diamond cycles a year. In the fourth quarter, we will have three sales. Thank you and over to you, Chantal.

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**Chantal Lavoie** - *Dominion Diamond Corporation - COO*

Thank you, Jim. Good morning, everybody. Before discussing the specifics of each operation, I'm pleased to report that both Diavik and Ekati have maintained their focus on the heath and safety of the employees and contractors and the protection of the environment. Through the first half of this year, we have both managed to reduce our incident frequency rate compared to last year.

This year's performance also compares favorably to industry peers. Performance in heath and safety and the protection of the environment requires constant and sustained efforts to which both teams are committed to.

Now turning first to Diavik, the mine continued its strong performance for the first quarter. On the processing side, Diavik saw one of its best quarters, with 29% above planned tonnage for Q2, building on the increase from the Q1 results. Combined with a slightly better-than-expected grade, especially in the second quarter, year-to-date carats production stands at 20% ahead of plan.

Diavik reports to the calendar quarter, which ended on June 30, but for comparative purposes with Ekati which reports on a fiscal quarter, which ended July 30, we have reported that in fiscal Q2, Diavik was 23% ahead of plan. Improvements implemented in the process this year such as the maintenance schedules, the change of some of the x-ray units and other parts of the recovery area continue to deliver positive results.

At Ekati, mining and processing are progressing well. Year-to-date underground production is essentially on plan. Koala underground is performing extremely well and the development of Koala North was completed at the end of last month, as scheduled.

But while, at the beginning of this year, we had expected that we would run out of Koala North material to process by the end of November, we have since identified an additional 70,000 tons of material in Koala North, which means that we will be able to continue processing Koala North material through to February next year.

We finished mining the Fox pipe in Q2 and the stripping of the Misery pipe has progressed well. As you will have seen from the recent production release, we also mined a significant amount of Misery South and Southwest material during the period. We have found that the Misery South and Southwest material is very fine and clay rich and it blends well with the Coarse Ore material from the Coarse Ore Rejects, which we therefore plan to process substantially together.

In round numbers, we are expecting in the second half of this fiscal year to process slightly over 410,000 tons of Fox ore; around 470,000 tons of Koala underground, once you include the small amount of inferred that is not included in the reserve, and about 150,000 ton of Koala North. In addition in the second half of the year, we also expect to process around 645,000 tons of Misery South and Southwest, 60,000 tons of Misery Northeast and approximately 400,000 tons of Coarse Ore Rejects.

We have received all permits from the preparation of Pigeon. We have pumped the water from the small lake above Pigeon and using crushed granite, we are in the process of completing the waste rock pads.

The ring road around the pipe has just been completed and we will be commencing waste stripping this month. We expect to mine the first ore in October of next year.

I'm very pleased to say that increased diamond recovery, which we saw at Ekati in Q1 from the higher-than-expected grades coupled with operational improvements implemented to the processing plant, have continued through Q2. These improvements are ongoing.

In the last six months of FY14, which ended on January 31 this year, carats recovered were 9% ahead of plan. Year to date in this fiscal year, carat production at Ekati has exceeded plan by 30%.

Among the changes, additional cyclones are being installed in the plant during the plant maintenance shutdown this month. Three additional grease tables in addition to the two existing ones are planned to be installed by the end of this year.

We're also in the process of installing a re-crush chute, which will take oversize material back to the high pressured grinding rolls to improve liberation of diamonds trapped in this coarse ore. We believe that these additions should assist in further improving diamond recovery.

In terms of development, we have completed the drilling program in the Misery Satellites which has given us an increased knowledge of Misery South, Southwest and Northeast. It is our intention to publish an updated 43-101 Resource Statement early in the new year, which will take into account the improvements made and our better understanding of the different ore bodies.

Finally, we are in the planning stage of a bulk sample of the Sable pipe this coming winter in order to gain a larger parcel of diamonds. Sable has over 15 million tons of indicated resource with a grade of 0.9 carat per ton. Early indication from a small sample suggests strong carat values.

We're very pleased with how things are progressing at both Diavik and Ekati. With that, I will pass it over to Brendan.

**Brendan Bell** - *Dominion Diamond Corporation - EVP of Community Affairs*

Thank you, Chantal. Good morning. We continue to advance the Jay Project, which beyond Misery and Pigeon, represents the future at Ekati. Since purchasing Ekati, we have worked with our stakeholders through public meetings and workshops to obtain public input on this project to extend the life of the Ekati Mine.

The important part of our execution for this project is our focus on engagement with our community, government and regulatory stakeholders. The revised plan to mine Jay, the Jay kimberlite pipe simplifies construction and significantly reduces the overall environmental impact of the project. The plan has been met with enthusiastic support from stakeholders given it reduces this environmental footprint.

Our schedule for the Jay Project remains on course. Our current work is focused on the next step in the Environmental Assessment process which is the preparation of the Developer's Assessment Report, or DAR, that provides detail on all aspects of the project. We intend to submit the DAR to the McKenzie Valley environmental impact review board before the end of November 2014.

McKenzie Valley environmental impact review board is a co-management board made up of appointees nominated by government and aboriginal groups responsible for the environmental impact assessment process in the McKenzie Valley. Once we submit the DAR to the review board, the analytical and hearing phases of the Environmental Assessment process are anticipated to take approximately 13 months.

This process includes information requests from parties that Dominion responds to, technical and community hearings, technical reports on specific aspects of the project and public hearings. The review board will then make a recommendation to the responsible minister with a decision expected in the fourth quarter of 2015.

This decision can be made quite quickly now that the government in Northwest Territories is responsible for the management of lands and waters in the Northwest Territories. And once this decision is issued, the water license and land-use permitting process will take approximately 6 to 8 months.

Based on our current schedule and our experience with the Lynx Project, we anticipate having the necessary permits in hand to begin construction in the third quarter of 2016. At the same time, we continue to advance other projects important to the near-term future of Ekati.

On May 30, this year, the Minister of Environment and Natural Resources for the government of Northwest Territories approved an amendment to the Ekati water license to incorporate the Lynx Project. The result of the Lynx regulatory process has further validated the significant commitment we've made to engage with and strengthen our relationships with communities, government and other stakeholders. The entire process for Lynx took only nine months and was the first new open pit mine approved in the Northwest Territories without going through an Environmental Assessment process.

On July 4 of this year, the Wek'eezhii Land and Water Board approved the de-watering plans for the Pigeon development. Work has now begun on the development of the Pigeon Project. On August 11, the Wek'eezhii Land and Water Board approved a land-use permit for Dominion to build a power line from the Ekati main site to Misery.

Work has now started on this project and will be completed next summer. The Misery site is approximately 30 kilometers from the Ekati main camp and it's currently powered by a remote, stand-alone diesel generator, with attendant fuel storage tank. The power line from the Ekati powerhouse maximizes the operating and environmental benefits of utilizing the larger, centralized and more efficient generators to achieve cost savings, reduce environmental risks and maximize environmental recoveries.

Once completed, the Misery power line can also provide more efficient power for future projects such as Lynx and Jay. As Chantal mentioned, this winter Dominion intends to undertake a drilling program to provide further bulk sampling for the Sable pipe.

Sable pipe was originally permitted in 2002 and we're beginning the process to complete the permitting process, which includes filing a final plan for a 16 kilometer all-weather road from Pigeon to the Sable site and the de-watering plan with the Wek'eezhii Land and Water Board and seeking the necessary Fisheries Authorization from the Department of Fisheries and Oceans for the project. Sable provides another potential source of ore for Ekati beginning as early as 2017.

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

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

Thanks, Brendan. So as Brendan has just taken us through, we continue to progress the Jay project on the expected time line which sees us completing both the prefeasibility study and the DAR, around the end of the third quarter of this year.

The prefeasibility study is designed to bring additional carats into reserve status on the basis of an approved economic model while the DAR, of course, is the exhaustive document that formally starts the permitting process. This next quarter is a pivotal one for the development of Jay and the long-term future mine life at Ekati.

As we continue to advance the project, we look forward to being able to place this extensive information into the public domain. Also this coming quarter, we begin a review of Ekati by an outside consulting firm with a view that's further enhancing operating efficiency and cost savings.

The team undertaking this work is the same, as the team that recently completed a similar review for Diavik, delivering very worthwhile results. Our own management are enthusiastic about this process which will take several months to complete.

During the quarter, we agreed to purchase Chuck Fipke's interest in both the Core and Buffer Zones of the Ekati property for a total of about $67 million subject to some detailed adjustments; this being a see-through of our purchase from BHP. The transaction is subject to a participation right by Stu Blusson for his proportionate share. Chuck was the initiator of the exploration work that led to Canada's first diamond mine and although this transaction has his financial involvement with Ekati, his role in this development, of course, will endure.

We welcome Ron Cameron to our senior management team and with position of Chief Financial Officer reporting to me as Chief Executive. Ron comes to the Company with over 30 years of experience across different industries and has served in a variety of senior executive positions. He will join the rest of us in being based in Yellowknife.

Previously, Ron was Executive Vice President of Concentra Financial. He also held senior leadership positions in Viterra, SaskFerco and Crown Life Insurance. Ron will be replacing Wendy Kei, who had agreed to move from Toronto to Yellowknife for a two-year period to support the move of the Company's head office.

Wendy has worked for Dominion for 10 years and will return to Toronto where she'll continue to support the Company through a transition role. We all take this opportunity to thank Wendy for her many valuable contributions and the dedicated service that she's given the Company over the years that she has been part of the management team.

Looking forward to the end of this year, we will have a completed feasibility study for the Jay Project which is expected to bring significant new resources to the Ekati Mine plan. We'll also have clarity on Rio Tinto's plans for A-21, including if development is to proceed, a capital expenditure schedule and a revised Diavik Mine plan.

Well, I think that end what we have to say. And we're now happy to field your questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Please stand by for your first question. Des Kilalea.

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**Des Kilalea** - *RBC Capital Markets - Analyst*

Just given the improvements and the efficiency at Ekati, are you going to be maybe increasing your guidance on production because you seem to be running ahead of budget. And then also, do you have any comment on what the capital might be like for A-21 or is that still too early?

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

First of all, good afternoon to you, Des. Chantal is still -- the improvements that are being made in the processing plan are still continuing and there are other key pieces of equipment that are going to be installed in the near future.

What we're planning to do is bring the total result of that, if you like, the embedded improvements that are made to recovery, the changes to recovery, will be incorporated in a new, revised -- or statement, resource statement, sorry, that we will be putting out early, during the first quarter of next year.

The second part of the question was A-21, yes, I'll tell you what the process has been. The local team at Diavik and Yellowknife have prepared a capital cost estimate which they then submit to the Real Technical Review Committee.

The Real Technical Review Committee there, as they go through it all, make their own comments and their own proposed adjustments to that which then gets accepted by the Investment Review Board, which then finally gets approved by their Board of Directors. We expect the decision at the Investment Review Board level, one way or another to be passed onto us in mid-October.

And the Board of Directors -- the Board approval which is much more of a formality, tends to happen during the first week of December. So we are carrying a number of -- and just for your own guidance, if you like, what we are carrying is a number really that we use for planning of $200 million for our share. which we think is probably an adequate amount.

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**Operator**

Oliver Chen.

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

Congrats on solid results. We just had a question here; impressed with the gross margin this quarter. For modeling purpose, do you expect that momentum to continue at that line item?

Also, on the inventory that you're carrying now, the $315 million, was that in line with your expectations in terms of that dynamic? And then I just wanted you to brief us on your views on cash and capital structure. Thank you.

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

Wendy, you want to kick that one off and then we'll go to Jim for the other part?

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**Wendy Kei** - *Dominion Diamond Corporation - CFO*

Okay. Hi Oliver. In terms of gross margin, yes, we do anticipate this carrying forward into Q3. Jim mentioned earlier in the call, Q3 has two sales and we're expecting three sales in the fourth quarter. I'll let Jim handle the inventory question.

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**Jim Pounds** - *Dominion Diamond Corporation - EVP of Diamond Sales*

Yes. Hi Oliver. On inventory question, we did hold a strategic stock because we were moving into this era, a new era for us of contractual relationships with our clients. And what we wanted to do is to make sure that we were able to provide a balanced assortment to our clients going forward. So we did hold, consciously hold some of that stock back to be able to provide a steady assortment over the next number of sales.

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

And then the capital structure -- believe it or not, I'm going to have to deal with that because I like to think that's sort of code for have we got too much cash and should we be handing some over and being a large shareholder myself, I'd rather like to have some handed over, too. But let me just draw your attention to look at the capital items that we have in front of us.

First of all, the ones that we know about, we have to complete the capital spend at Misery, which off the top of my head, is about $100 million. We also are, of course, committed to the spend at Pigeon, which is around about $80 million.

And then we believe there's at least a 50% chance that Rio will approve A-21 for another $200 million our share. And then we have Jay sitting in front of us and possibly Sable. We're doing a reverse circulation bulk sampling program at Sable and assuming that is positive, that would put us into a project with about probably another $130 million on it.

We've also got Lynx, Wendy, can you remember the number for Lynx? It's relatively small.

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**Wendy Kei** - *Dominion Diamond Corporation - CFO*

$30 million.

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

So we've got a significant capital program sitting in front of us, much of which is not defined. Things like whether or not we do A-21; it's not in our hands.

The results of the bulk sampling for Sable are something that's still in front of us. It will probably be April before we get any reading on that.

And so we have to be prepared to take on what are very rewarding projects but they do require this front-end capital. We need a clearer view of these things before we can make decisions about whether we are actually holding the right kind of capital structure. Wendy, do you have anything further to add to that from the more professional end?

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**Wendy Kei** - *Dominion Diamond Corporation - CFO*

No, other than I know in our guidance, we said we have for the year, $22 million for Diavik CapEx. That's still the guidance.

And then we have also disclosed $170 million for CapEx at Ekati for the whole entire year. So that itself is $192 million of capital.

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

Does that do it for you, Oliver?

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

Yes. That was great. That was great. Just a follow-up on your market commentary, you speak to the Chinese market slowing but indications to return to a more positive direction.

What do you think are the main drivers for that potentially happening? And as we look across the markets and environment, which markets are should we focus on as most sensitive to how prices may trend?

**Jim Pounds** - *Dominion Diamond Corporation - EVP of Diamond Sales*

Well, I think on the question for future development of China, I think, as I have said a couple of times in these calls, that it's becoming a more mature market where it becomes a big development of the bridal ranges, particularly in the growing middle class there. So we certainly see that as being a trend, coming away from the top-end a little bit as it matures, as I said.

The various markets as I said, we still see a lot of strength in the US market in all ranges, and not only just bridal but in the self-purchase market in America is particularly strong. And India, of course, is the one we're all waiting for to wake up and all indications with the positive moves by the Reserve Bank of India and the new leadership of Prime Minister Modi indicating that things will improve there.

And most other areas seem to be going along reasonably nicely, with no great dark clouds on the retail horizon. Does that help, Oliver?

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

Yes. That' s great. Thank you. Best regards for the holiday season.

**Wendy Kei** - *Dominion Diamond Corporation - CFO*

Oliver, another use of cash in the next quarter will be the acquisition of Chuck Fipke's 10%. Okay?

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

Okay, great. We'll be sure to model that.

**Operator**

(Operator Instructions)

Edward Sterck.

**Edward Sterck** - *BMO Capital Markets - Analyst*

Two questions. Firstly, in relation to the improved -- or I suppose the very strong operating quarter at Ekati, we already touched on this in terms of the increased recoveries and obviously revised guidance coming from a new year.

But I was just wondering if the improvement in recoveries seen in the second quarter are viewed as being sustainable? That's my first question.

And then my second question is, there's an awful lot going on at the moment -- the different projects and different assessments underway, you've run through the timing of some of these things mainly from the perspective of permitting. But I was wondering if you could run through the sequential timing of delivery of the scope and prefeasibility and feasibility studies to the market?

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

Maybe I'll just tackle the first one and I'm going to let Chantal talk about the embedded -- the fact that the improvements are finally embedded. The first one will be, let me think. So, Lynx, of course, is already approved. It's a very small project but nonetheless, it's already -- you can check the box on that one and of course, Misery and Pigeon are actual facts now.

Sable realized on the results of a bulk sample that we are doing the physical work in collecting the bulk sample in the spring. We've got to make ice on the lake before we can put this heavy drill rig on it. We'll actually be drilling during March and April and then processing the samples through the pilot plant thereafter, so takes us into the summer.

Assuming a positive result, then we have to complete a prefeasibility level study. We won't be demanding -- this is a satellite, another satellite open pit ore body so it's not as if we're going to do a full feasibility study like you would on a brand-new greenfield project. So the prefeasibility study won't take too long but I'd say we're going to be into the end of the third quarter before we get pre-feasibility results on that.

Jay, we will have the prefeasibility study complete on that this third quarter. It's well underway now and I've got confidence that we'll meet the timeline on that so that it will be released at about the same time, within a few weeks of the time that we actually put out the Developer's Assessment Report that kicks off the permitting process. I think that covers the gamut at the moment.

But in the future, we will look at the viability of underground block caves at both Jay and Fox as the long-term future at Ekati. And of course the other thing that's going on the side of that is that Diavik then whether or not A-21 gets done or not. I would say I don't have any special insight on how Rio is reviewing this at the moment.

They certainly -- they've done the work but it's before their investment review committee and I think we just have to wait for the results of that contemplation, which will certainly have -- we'll be told whether or not this project is going forward for Board approval. We'll be told that in mid-October.

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**Edward Sterck** - *BMO Capital Markets - Analyst*

Obviously that's going to be internal to re-attempt there. Will there be something from -- something that looks at a mine plan that you could then pass on us, depending on the results, of course?

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

Yes. With the -- to support -- the meeting will be held before the joint venture partners to support the investment decision will include a revised mine plan for Diavik on the assumption that the project is approved, that is. What will be put before us for approval will be a revised mine plan as well as the CapEx investment in A-21 we will, of course, immediately put it out to the public.

**Edward Sterck** - *BMO Capital Markets - Analyst*

Okay, thank you.

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

Chantal, do want to just talk about the embedding of the improvements because they are to stay.

**Chantal Lavoie** - *Dominion Diamond Corporation - COO*

Yes. So far, since we have taken over, what we've done is essentially add more discipline around maintenance and replacement of screens, around operational throughput. So instead of pushing tons at the expense of recovery, what we have been focusing on is maintaining steady tons and working on very -- more stringent parameters, how we operate things like the advanced media separation, HBGR and other aspects.

When we came to -- so we can maintain those but we came to physical limitation of the equipment. So what we're doing next and it's starting this September and we've talked about it before. Now we're adding cyclones, which are going to add capacity and allow us even more stringent operation of the advanced media separation.

We are adding more wetting and re-crush to allow us to further liberate the rock because we're getting at the limitation that this material cannot be rerouted through the crusher so we're doing physical changes. And then at the end of the year, in preparation of Misery ore that's going to increase that's a lot of small diamonds, we're adding capacity to the grease tables.

Really, the first 14 months will focus on a more stringent operation, more discipline, rather than just pushing tons at the expense. That's sustainable. That' s going to be sustained. And now we're in the second phase where we're actually making physical changes to the process plants.

**Operator**

Yen Voo.

**Yen Voo** - *Nomura International - Analyst*

I have three questions. The first one, following on the question of holding stock levels; is it fair to assume a normalized level of inventory at about $400 million going forward? Secondly, you mentioned paying for the 10% Ekati interest vest cash in hand. Will that be through installments or lump sum?

Lastly, how likely will you be required to post further bonds on acquisition of 10% interest? If so, what is expected quantum? Thanks.

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

So, Jim on the first. Wendy on the second and Brendan on the last.

**Jim Pounds** - *Dominion Diamond Corporation - EVP of Diamond Sales*

I think that stock level seems rather high. Really, we'll have to look at deliveries from both mines to be able to comment on the future inventories going ahead.

**Yen Voo** - *Nomura International - Analyst*

Okay.

**Wendy Kei** - *Dominion Diamond Corporation - CFO*

On your question regarding the Fipke acquisition, we will be paying for the Buffer Zone in cash and we'll pay for the Core Zone in installments.

**Yen Voo** - *Nomura International - Analyst*

Okay, so that has been discussed during the first news release on the different types of installments like the $17 million and then full in by installments.

**Wendy Kei** - *Dominion Diamond Corporation - CFO*

Yes. That is correct.

**Yen Voo** - *Nomura International - Analyst*

Rather than in cash? Okay, all right.

**Wendy Kei** - *Dominion Diamond Corporation - CFO*

And then your question of reclamation, Dominion currently puts up 100% of the reclamation for Ekati. So our reclamation won't increase with the 10% acquisition from Chuck.

**Yen Voo** - *Nomura International - Analyst*

The total value would not increase but you have only posted a share of that portion currently. Would that portion slightly increase?

**Brendan Bell** - *Dominion Diamond Corporation - EVP of Community Affairs*

No. There is no additional posting of security for the 10% acquisition. We've already -- we are committed to post for the 100% of Ekati.

As you may know, our reclamation bond for Ekati though, is being raised and we're in the process of working that out with the government. That's an aggregate. That includes the 10% that we're responsible for already.

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

I think maybe there's a simpler answer there. I think just to get to what I think you're asking. We -- so with the model, we -- although we own 80% of Ekati, the Core Zone of Ekati which is where the operation is, we actually put up 100% of the bond. The minority partners, in turn, provide us with security and at the moment, it's in the form of diamond parcels, they provide security for their share.

We are at the front of it and they are kind of secondary behind it. Obviously, when we purchased Chuck Fipke's interest he had, that does also liberates the security that he has given to us and we're then fully responsible, if you like, for 90% of the bond. Is that clear enough for you?

**Yen Voo** - *Nomura International - Analyst*

So there wouldn't be an increase of restricted cash to be allocated?

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

Wendy, I can't --

**Wendy Kei** - *Dominion Diamond Corporation - CFO*

No. With the acquisition, that restricted cash number won't increase.

**Yen Voo** - *Nomura International - Analyst*

Okay. That's what I'm trying to get to. Thank you.

**Wendy Kei** - *Dominion Diamond Corporation - CFO*

It's already 100%.

**Operator**

Des Kilalea.

**Des Kilalea** - *RBC Capital Markets - Analyst*

Jim, the question to you, with Alrosa destocking, I'm wondering if you're seeing any impact on any categories on price and then perhaps somewhat cheeky question, are you talking to Archon at all about maybe buying more of the core investors out?

**Jim Pounds** - *Dominion Diamond Corporation - EVP of Diamond Sales*

There was a question, I think in the call a couple days ago, they said that they did destocking but they've increased prices quite significantly this year as well. So the answer to that is no, we haven't seen any impact on price from their destocking. And of course, they also said in that call that their production is significantly lower this year although they have intimated that it will get back to more normal levels towards the end of the year, Des.

**Des Kilalea** - *RBC Capital Markets - Analyst*

Thanks, Jim.

**Brendan Bell** - *Dominion Diamond Corporation - EVP of Community Affairs*

And then your second question, yes, I guess, I suppose the real proper answer would be we can't comment on things like that the real answer is that no, we're not. We don't have any conversations going on with Archon.

**Operator**

Brian MacArthur.

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

I just want to go back to the environmental bond again because you did mention it as another potential use of cash going forward which I thought there might still be more cash going out there. Can you just clarify exactly -- I know we're still negotiating it but secondly, when you bring up this parcel of collateral for the minority 20% in diamonds, does that fit in inventory in your balance sheet or where is that 20%? Is that kind of an offset or what actually happened there, right?

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

Even I can answer that one, Brian. Good morning for start. First of all, no, they're just physical parcels of diamonds that sit in our vaults with special seals on them. They'll know -- they're not included in any financial statement of ours whatsoever. They are simply -- it's just like holding a mortgage on a property or something like that.

We physically hold these goods as a guarantee that if there is a draw on that, if there's been a draw on that, we could actually sell those goods and realize the amount of money that would be their 10% contribution. As simple as that.

Now the balance going forward, I didn't include as a capital contribution, no, that's because we're talking to a group of insurers about a form of surety bond. Brendan, do you talk about that a bit?

**Brendan Bell** - *Dominion Diamond Corporation - EVP of Community Affairs*

Yes. We currently have posted, I think, $117 million in aggregates for reclamation at Ekati. That is moving up -- sorry, to switch currencies to about CAD253 million, so I think it's going from something CAD120-something million to CAD253 million. As Bob has indicated, we're talking about how we step that up with the government in Northwest Territories and we're in those discussions right now.

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

Okay. Can I go back to the parcel? Does that mean when you get the Fipke, that deal closes, whatever percentage you get? Does that release those diamonds and you can sell them in the market because you're posting 100% so you don't need that collateral and you can sell them?

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

Well, we don't sell them. They are his diamonds and he can sell them. But you're quite right, that it does release them to him.

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

Okay, second question. Just -- can you -- I thought it was interesting talking about Sable and going back and it's going back awhile. Obviously, that grade was always about 0.9 from what I remember.

Has there been, like when you say done a little bit more work and I know you're waiting for the bulk sample and that's what we need, has there been anything really done since that with originally? Like you're talking about doing stuff. Has the grade actually gone up?

More importantly, you made a comment about carat values looking good. If I go way back, I thought they were $70 or $80 carat stuff, if we go way back to the diamond original studies. When you say they're pretty good carats, would you care to give us any guidance?

I assume they're not Koala North-type diamonds at the end of the day, but are they $120 stuff or can you give us any guidance on that? I realized the bulk sample you said (multiple speakers) --

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

Okay, we view them as being north of [$200] but I would emphasize, Brian, if we knew exactly what the value was, we wouldn't be doing the bulk samples. So in other words, what this is a cleaning, a proper cleaning of diamonds that were held in inventory.

It's a small sample, my recollection is it's about 200 carats -- yes, that's sort of a -- so it's small. We're doing is projecting doing the normal thing, which is to project diamond qualities into diamond size classes that aren't virtually visible in the current bulk sample. Of course, we agree we need a bigger bulk sample as to be able to compare them.

It's also, I believe if we -- a recalculation of the grade using a more appropriate method that has been used in the past would push it up a bit but nonetheless it's still, we're still talking about something that's between 0.9 carats a ton, perhaps a carat per ton. But, with the kind of diamond value that we think we see in there, it makes it definitely a very profitable project providing that we realize that diamond value in the bulk sample.

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

Right. So it's just going back to the original stuff and just like whatever was done a long time, revaluing those in the context of today's market as opposed to having anything new diamonds or anything. Right?

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

That's correct. Yes.

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**Operator**

We have no more questions waiting. I would now like to turn the call over to Bob Gannicott for closing remarks.

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

Thank you all very much for joining the call. Any follow-up questions that you think of in the meantime can always be addressed through Richard or Kelly. We look forward to talking to again when we report the third quarter. Thank you.

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**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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