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## PRESENTATION

### Operator

Good day ladies and gentlemen and welcome to Dominion Diamond Corporation's fiscal 2016 third-quarter earnings results conference call. My name is Andrew and I will be your operator for today's call. (Operator Instructions). 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 of Corporate Development and Head of Investor Relations. Please go ahead.

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

Thank you, operator. Good morning everyone and welcome to our fiscal 2016 third-quarter earnings results conference call. On the call today is Brendan Bell, Chief Executive Officer; Ron Cameron, Chief Financial Officer; Chantal Lavoie, Chief Operating Officer; Jim Pounds, Executive Vice President Diamonds; and Elliot Holland, Vice President Projects, 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 were 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 were 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 Brendan Bell.



**Brendan Bell** - *Dominion Diamond Corporation - CEO*

Thanks, Richard, and good morning, ladies and gentlemen. Welcome to the earnings call for our Q3 of financial year 2016. I'm going to begin by covering some of the main points and then I will turn it over to others to discuss different areas in more detail and then I will come back and conclude with some remarks about our overall business.

In the diamond market as you well know, I think we have continued to experience some headwinds but we have however reported positive earnings of \$0.05 per share for the quarter and we also continued to generate positive free cash flow during the quarter. We ended Q3 with a strong balance sheet including \$328 million of unrestricted cash and in November we paid an interim dividend of \$0.20 per share as per the Board's previously announced dividend policy.

At Ekati, we completed our testing of the processing strategy to further increase diamond liberation and the results of the testing are currently being analyzed but the initial results indicate a positive impact on diamond recoveries. Work on the prefeasibility at Sable and the feasibility at Jay is continuing to progress. The public record for the Jay environmental assessment closed in October with a decision from the Mackenzie Valley Environmental Impact Review Board now expected in January of 2016 and that will then be forwarded to the Territorial Minister of Lands for approval.

With that overview, let me hand you over to Chantal.

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

Thank you, Brendan, and good morning, everyone. I am turning firstly to Ekati and Koala Underground. Original forecasts for this current fiscal year envisage us processing about 1.1 million tonnes of Koala Underground. We fell behind schedule in Q1 because of the knock on of the conveyor belt breakdown at the end of the last fiscal year. Since then we have made some significant changes to the way Koala is operated with positive results in terms of improved productivity.

We caught up the shortfall in July of this year and then have continued to maintain improved performance. As a result, there is now an opportunity to exceed our original plan of mining 1.1 million tonnes from Koala this year.

I am very pleased with the Underground operation and next year is going to be a big year for Koala Underground. Over the next four years our intention is to mine more Koala Underground ore faster.

At Pigeon following a slower than planned start earlier this year, we made good progress through the second and third quarters. More specifically during the third quarter our efforts on surface mining productivities have provided good results including catching up on pigeon waste stripping activities.

Pigeon has just come into production and the first ore was mined last month. We will see ore production increasing through the fourth quarter and we now expect to mine and process approximately 200,000 tonnes of pigeon kimberlite this year.

We are on budget and on schedule at Misery Main. We have approximately another 3.5 million tonnes of waste to move until we mine the first ore. In Q3, we have completed all the preparation work at Lynx and initiated the waste re-stripping slightly ahead of schedule. We anticipate doing strictly waste mining until the end of October next year with the first ore at the end of the next financial year as planned.

We completed testing of the diamond liberation initiative in the process plant which involved slowing the throughput down in order to achieve better diamond recoveries. The results of the testing are currently being analyzed but as Brendan mentioned earlier in the call, the initial results of the testing is a positive although the impact on each production source shows high variability.

During Q3, we did specific testing on a new processing strategy on the Misery Southwest extension and Koala Underground ore. The positive is that we are seeing better recoveries for each tonne processed. The negative is that this testing resulted in processing inefficiencies in September and October resulting in approximately three equivalent days of downtime.

The detailed design plans for fines DMS is progressing very well which we will aim at recovering diamonds between 1.2 to 0.65 millimeters in sieve size. We have already placed orders for the long lead time items and have started work on the electrical structure in the plant. We expect to complete the construction in the second half of fiscal 2017 and the first recoveries in Q4 fiscal 2017. The startup capital is \$22 million and according to our internal estimates, the payback is less than two years.

On the operating cost side, we continue to make good progress on various initiatives such as energy, equipment availabilities and consumables which combined with productivity increases have translated into significant improvements in terms of cost per tonne mined.

Turning to Diavik in Q3 production was slightly lower than planned due to increase dilution. That would seem to be simply a function of the mining method in the A-154 South and A-418 pipes where the orebody is open to surface and as you go deeper, the potential for rock falling from the sidewall increases. Indeed this is seasonal and what we expect to encounter between the Spring Freshet, the snow melt from around May and June until the water freezes again in September and November.

There is no danger to people since we use remote loaders and the impact is primarily on having to muck out additional waste after such an event. We had similar experience at Koala North and Ekati. A-21 is progressing very well. All the planned work on the dike was completed before the water froze and is running slightly below budget.

In February, we will start utilizing the Winter Road. While we fully expect this to operate as usual, we have had a relatively warmer winter than usual so far. We have commenced planning to ensure that critical loads are all positioned and prioritized.

Thank you. Now over to Elliot.

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**Elliot Holland** - Dominion Diamond Corporation - VP, Projects

Thank you, Chantal, and good morning. Starting at the Jay project, we held public hearings in September in affected communities. All parties gave their closing arguments and the public record closed in October. The decision from the Mackenzie Valley Environmental Impact Review Board is expected in January 2016 which will then be forwarded to the Territorial Minister of Lands for approval.

The primary issues raised in the public hearings centered on caribou and water quality impacts as expected. We believe that we have put forward comprehensive plans to deal with these important concerns based on Ekati's long record of world-class environmental stewardship.

We are advancing towards completion of a feasibility study at Jay. In September, we finished processing the bulk sample from last winter's drilling campaign. The diamond parcel was sorted in October and valued in November. We are in the process of building this new information into the revenue model for the feasibility study.

We will have a detailed update to the project economics once the study is complete but in terms of general trends, while diamond prices in US dollars are weaker than the October 2014 price book that we quoted in the prefeasibility study, Canadian dollar-denominated prices have increased since then which are more relevant to the project's overall economics. The dike is now likely to be about 10% shorter than we previously estimated and fuel prices are lower.

For Sable, we have been ramping up our execution team including the hiring of a veteran project manager and we have appointed an EPCM firm. Mobile construction equipment and a smaller crushing plant will come up this year's winter road and will be commissioned in March with work starting on building the 16 kilometer road from Pigeon to Sable in April of next year. Construction of the road should take five to six months and next winter we will begin building the first of two small dams in preparation for dewatering in calendar 2017, pre-stripping and waste stripping in 2018, and first production late 2018, our fiscal 2019.

Let me now hand the call over to Ron.

**Ron Cameron** - *Dominion Diamond Corporation - CFO*

Thank you, Elliot. Good morning ladies and gentlemen. As always, just want to point out a few key points from our press release of our quarterly results and give some further insight. These are the strength of our balance sheet, continuing positive cash flow, and some further color on our full-year guidance.

Starting with our balance sheet, we continue to have a very strong cash position with \$328 million of unrestricted cash while also maintaining a \$210 million credit facility which was undrawn at the end of the period. As we mentioned in the Q2 conference call subsequent to the end of the last quarter we recovered CAD23 million from the security held by the GNWT for the Ekati Mine Environmental agreement but also posted CAD61 million of cash against letters of credit for our share of the Diavik reclamation bond.

During the quarter, we generated positive free cash flow of \$8.5 million out of an operating cash flow of \$61 million against capital expenditures of \$52 million which includes continued significant investment in the Company's many developmental projects explained earlier on being called by Chantal and Elliot.

Looking now at the foreign exchange impact on our earnings, we continue to benefit operationally from the weak Canadian dollar versus the US dollar but it is worth repeating that due to our need to purchase supplies inventory and fuel up to a year in advance of its use, the full benefit of the weakened Canadian dollar won't be seen in our financials until next year.

To update you on our fuel costs, we have now purchased approximately 75 million liters which is held in storage in Yellowknife which will go up this year's winter road for use in fiscal 2017. We expect the landed cost for fiscal 2017 is approximately CAD1.14 per litre. As a comparison, this year at Ekati we expect to use around 72 million liters of fuel at an average leaded cost of CAD1.36 per litre.

Gross margin in the third quarter at Ekati was negatively impacted by the planned eight-day process plant shut down to change out HPGR in May and as a reminder due to the length of time from when we recover a rough diamond to when it is sold, there is a delay of approximately 1 quarter in the realization of changes to the production profile on our gross margin.

As Chantal mentioned earlier in the call, the liberation initiative testing concluded in the third quarter. This testing negatively impacted plant throughput during the quarter and therefore is expected to impact margins in the fourth quarter when most of the third quarter's production will be available for sale.

As we have indicated throughout the year, this was always expected to be a transitional year ahead of the high valued Misery Main Pipe coming on stream early next fiscal year. You will also note that our cash cost and production forecast at Ekati for fiscal 2016 is lower by about \$15 million since we gave our last estimate in September and this is primarily a result of good cost management and a weaker Canadian dollar. Our development CapEx forecast at Ekati is \$138 million for the year which is slightly higher than previously forecast but this is purely a matter of timing. We are comfortable that despite the weaker diamond market and large development project ahead of us, we have a strong balance sheet which puts us in the position of being able to maintain a sustainable dividend.

Thank you and let me hand you over to Jim.

**Jim Pounds** - *Dominion Diamond Corporation - EVP, Diamonds*

Thanks, Ron, and good morning everyone. Look, we have already reported that we lowered our rough diamond prices in August by approximately 5% and that for the calendar year prices are down by around 8%. Obviously this is an average figure and some categories have fallen less, some by more. But the best-performing diamonds have produced commercial polished of the I1 to I3 ranges.

Since August, we have held prices steady and in some cases predominantly in the lower price points where demand is weakest where we haven't achieved what we believe to be the correct price, we have held goods back in inventory.

Now it is normal to have a period of weaker demand for polished diamonds at this time of year as the jewelry industry has already stocked up in advance of what is typically a period of high demand. Restocking happens at the beginning of the following year but polished diamond prices were also impacted by two additional factors.

Firstly, the lack of demand for polished diamonds by major Chinese retailers not because Chinese consumers are not buying diamond jewelry, they are, but from the Chinese retail jewelry sector who substantially overstocked both in the merchandising of new stores but also in expectation of the continued dash for growth.

The major retailers still have the confidence to build new stores but at a much slower rate and they are now working through that excess inventory. And as we move through Christmas onto the Chinese New Year in early February, at some point Chinese retailers will re-enter the market for polished.

The second factor was the bubble we saw in polished demand and prices as a result of the massive increase in cheap bank credit available to the cutters and polishers from 2009 to 2014. Over the last 18 months, those banks have been cutting back on that credit and in some cases leaving the industry. That has caused a shrinkage of around 40% in manufacturing capacity. Therefore what demand there has been for polished goods has already been absorbed by a sell down in inventory in the cutting centers which is a good thing for the long-term health of the industry.

We are going through the pain of becoming a more normalized industry but in the end it will be a smaller, better funded and better structured middle of the diamond pipeline.

From the retail perspective, jewelry demand in the US was weak in the first half of the year but we have recently seen a pickup in jewelry sales since August which is pleasing as we are now entering the important fourth quarter where approximately 40% of US diamond jewelry sales take place. There is still demand for Chinese diamond jewelry at the consumer end of the market but it looks like demand will be at best flat for this year.

Hong Kong has continued to be hit hard partly as a result of the continued anticorruption drive but the negativity in these figures seems overstated as many of the Chinese have moved their purchases to Japan and Taiwan. So Japan has been a positive surprise even though it comes from a low base.

Reports of sales during the Diwali period in India are mixed but overall seem to be flat. The season is not over in India and the main demand comes from the wedding season which runs from November through to February. It is really too early to say how that will go but we hope for the best.

So there is currently a shortage of rough and polished in many categories but where the prices can hold at the beginning of next year depends a lot on demand over the Christmas season especially in America and when the Chinese retailers will come back into the market.

Thank you and I will now hand you back to Brendan.

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

Yes, thanks, Jim. As Jim has just told you, there have been some short-term headwinds in the market but looking back over the year in terms of overall trends, our rough diamond prices have fallen about 8% but as an offset, the Canadian dollar has declined 20%. We are pleased with the performance of our operations. The production target for this year at Diavik has been lowered slightly as we told you but with the spare capacity in the Diavik plant, that can be easily made up in the future.

Production at Ekati is in line with our expectations given the nature of this transitional year. And lastly as Ron just said, we have a strong balance sheet which positions us well in these uncertain markets. In order to set ourselves up for long-term success however, we continue to evaluate our cost structure to ensure that our future operations remain profitable.



Thank you very much for tuning in and now we welcome your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Des Kilalea, RBC.

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### Des Kilalea - RBC Capital Markets - Analyst

Thank you. Good morning and good afternoon everybody. A couple of questions. The first is on inventory and I think I am probably right in saying most of us are slightly confused on how we should extract how much, Jim, you are holding back? So when we see that you have got inventory available for sale we know the 9 million carats would be stuff that is being cleaned and sorted. But in looking at the other, how should we -- what is genuinely for sale and what has generally been carried over from a previous sale?

And then just maybe if Chantal could go a bit deeper into what sort of things still need to be done on the analysis of the plant to see at what rate you should run it and when we might hear a little bit more about that? Thank you.

I am being a bit rude. One question, maybe you could also talk about we saw another diamond company report some prices today and they looked like they were flat quarter over quarter which does suggest that maybe there is a little bit of a pickup perhaps in demand maybe not prices but demand at least right now in cutting centers.

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### Jim Pounds - Dominion Diamond Corporation - EVP, Diamonds

Brendan, I will take this on if that is okay. I will answer questions one and three not that they are linked. But let me get some clarity a little bit around the inventory and just to break it up between our two accumulations of goods release.

Firstly, from the Ekati, the inventories consists of accumulating goods in Yellowknife which are delivered from the mine so that is one cycle of that. One cycle of that is then released by the GDV and that goes into sorting. So those goods are actually in the function of being sorted. And then we have one cycle of goods that is being prepared for sale in other words it is being split into the individual sales parcels that are ready to be put in front of the clients.

So that is really three cycles of inventory build at the Ekati site.

And on Diavik, we really don't count in the first aspect of that cycle so really when they are delivered to our Yellowknife office for sorting then they come into the inventory build up and then once again they join as do the Ekati goods being prepared and split and then mixed of course with the Ekati goods prior to sale.

I really think that goods available for sale as we put them is really when we have what I would call the new intake which is the goods for sale then blended with any stocks that we may have accumulated to reduce the sales mix that we put in front of our clients at that point.

So these are goods that are held back and plus the fresh intake that become the goods available for sale. So only that portion we held back and the mix with the goods coming in. So it really is that last final stage that we blend the new and the old together.

Does that process throw any light on stuff, Des?

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

Yes, that helps. Thank you.

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**Jim Pounds** - *Dominion Diamond Corporation - EVP, Diamonds*

On your question number three if I may interrupt and then Chantal can get on with his bit. Yes, we saw the flat pricing come in from Petra which was very interesting and they had their tender a couple of weeks ago. I'm speaking just to the rest of the audience, I'm now speaking from Antwerp at the end of our sale and we have seen good demand this sale as people have come back into the market to restock their factories after the Diwali break. Prior to Diwali, we said that production was down 40%, 50%, even 60% and during Diwali of course all the factories close.

So during this period as well, sales of polished have been made and people then need to get rough back into their factories to A, get the factories moving again, get their workers producing and B, restocking those areas of polished which have moved out of their inventory during that period. So they are ready for when the retailers come back into restock after the Christmas or Chinese New Year period.

So we are seeing an uptick that really is fulfilling gaps in inventory which I find positive that people are looking into the new year willing to replenish their inventory where they have made sales.

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

Just before going to Chantal for liberation, I would say one of the things that has been particularly encouraging for us over the year really is the level of inventory year-over-year. If you look at our inventory levels this time last year, certainly we've got a different profile in terms of the inventory we are carrying but it is not vastly larger this year than it was last. And I think that is a credit to Jim's team and you are seeing a lot of media reports of deferrals and refusals at sites of other producers. We really haven't experienced that this year and I think that is because we have been I think very good and responsive in our pricing strategy and again I think Jim's team has done a great job in that respect this year.

Chantal, do you want to take us just through some of the diamond liberation trial work and where we sit now and the analysis underway?

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

Good morning, Des. As we said, I think in the last quarter was pretty much we went through our testing and as we mentioned in order to do that testing, we have to slow down, we have to actually stop the plant, purge it, so on and so forth. Again with high level, we see positive results we see in general that the recovery of diamonds is better. There is a lot of variability in the ore so from a Koala to Misery, Satellites and so forth and that is what kind of complicated a bit the entire process.

Where do we stand right now? One thing for sure that we are going to operate within the re-crush mode 100% of the time. We have seen a lot of benefit coming from this. We have also been able to identify the optimum operation points for the HPGR in terms of gaps for the HMS in terms of throughput pressures. And what we're plan for next year is to basically start slowly increasing the throughput through the process plant. We will probably be in a range of between 3.8 million tonnes and 4 million tonnes through next year. Then we are going to have to have some small physical changes to be done to the plant over the next year or two and obviously that takes time by the time we do some -- order the equipment so on and so forth and I would see gradually probably going back to around a throughput of between 4 million and 4.1 million which we believe is probably allowed us to maximize recovery and obviously maximize throughput.

So that is where we stand right now but again we are done with our testing and really now it is about starting to ramp up slowly back to about a 4 million tonne per annum rhythm.

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

Thank you, Chantal.

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**Operator**

Brian MacArthur, UBS.

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

Good morning. Sorry and maybe you can't give us too much more but just on this liberation variability and you sort of mentioned it is different from say Koala to Misery, is the variability -- I mean you've got different types of pipes there, one that has higher value, less grade one that is high grade, less value. Is the variability actually related to size or can you give us any more color on what the variability actually is?

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

Yes, good morning, Brian. The variability is really driven by the size frequency distribution of the ore. As an example, Misery, Misery Main as we know has a lot of very fine diamond. So there is more -- obviously there is better benefit of liberation and re-crush on Misery and Misery Main and Satellite as for Koala, as an example, where Koala is a coarse ore size frequency distribution.

So even if you re-crush more you don't get the same amount of liberation. So that is really what is driving that variability and until we actually could stop the plant and purge in a single source of ore, it was very difficult. We were getting an overall better recovery but it was difficult to assess where it is coming from. So that is when we talk about the variability, that is pretty much it, it is really the difference in size frequency distribution between the different sources.

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

Right, and would you get like increased recovery like across a wide range of size distribution meaning like -- sure I can see Misery probably get more just because you are small, you are picking up more. But say in Koala if you had a bigger stone would you -- are you getting more bigger stones as well or is it just like more at the small end?

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

It is more at the small end. We haven't seen any real changes in stones above 1.5 carats. Where we benefit is really below that size.

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

Great. That is very helpful. Just my second question just following on the combination of (inaudible) and Jay, at one time I think there was -- we incorporate everything into the Jay, new recovery, everything, diamond liberation come out with a whole new plant. Is that still the plan to come next year, is that still what we should expect sometime early next year?

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

That is right, Brian. I think we have guided you to expecting after Christmas a prefeasibility on Sable, we have a feasibility study coming Q1, end of Q1 for Jay. It will incorporate the liberation, the small diamonds project recovery as well so we will come out in a comprehensive way and lay this out for you.

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**Elliot Holland** - *Dominion Diamond Corporation - VP, Projects*

This is Elliot here. I will say that it is very unlikely that the liberation initiative will result in a level of confidence that would allow us to put additional carats into reserves on the basis of that initiative.

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

Great. That was going to be my next question. Thank you, just to see how that worked through with the Jay. Perfect. Thank you very much.

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**Operator**

Tanya Jakusconek, Scotia Bank.

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

Good morning, everybody. I just wanted to have a few questions. The first one is a technical question for Chantal. I apologize. I got on a bit late on the call but I wanted to review two items.

Number one, why the production was revised, the guidance for Diavik? I think I caught that there was some dilution I think I just got on a bit late so I apologize for that. So maybe on Diavik, what is happening to have revised guidance for the year?

And also the revised guidance at Ekati, I think we were talking about 2.8 million carats in the Q2 release and now we are down to 2.6. Maybe we can address that?

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

Okay. Good morning, Tanya. First of all on Diavik, I think the major driver for the change in the guidance is driven by dilution. So as we mentioned and it is typical with that mining method as the guys are going deeper, we see some sluffing coming from the walls, the waste comes down and they have essentially to muck that waste. Obviously as they are doing it, they are trying to do a good job to separate the waste from the ore but you always end up in dilution. So you've got first the impact of that diluted ore that reduces the grade.

And secondly as the guys are dealing with some of the bigger pieces of waste, they've changed a bit the sequence or the blend between the three pipes and as you know, 154 South is the highest grade. So when you slow down a bit or you deal with dilution then you turn around and compensate production coming from the other two pipes. So it strictly is driven by two things having to deal with dilution which reduces the grade and secondly a change in the blend between the three pipes. So that was the main driver at Diavik.

At Ekati again, I can appreciate that things sometimes trying to understand the changes is really when we state carats, we state basically what is in reserve. And that is the only things that we can report. Obviously as you know, there's a lot of material that is not in the reserves that is either in resource or actually inferred like coarse ore rejects. And as we change the blend of the ratio of these things, we end up in a situation where yes, on paper we are going to mine, we are going to produce less carats so 2.6, but in fact it is being replaced by material that is not in the reserve. So that is the driver behind the change.

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

So are you saying that the 2.8 to 2.6 was because we changed what was coming out of reserves and so if we hadn't changed it, it would have been the same number?



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

Exactly, exactly. You got it. That is exactly the point.

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**Tanya Jakusconeck** - *Scotiabank - Analyst*

And then the coarse ore rejects which were adding the 1.3 million tons, what grade is that coming at, Chantal?

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

If you look at a number year to date, if you look at the tonnage and the carats produced, the average grade is about 0.65 and that is the number that we use for planning purposes. But again, there is huge variability and we have seen coarse ore rejects, we have seen months where the grade was as low as 0.35, 0.4 and we have seen months where the grade was as high as 0.8, 0.9 carats per tonne. So 0.65 is what we have experienced so far this year and a bit of last year and that is what we normally use for planning purposes.

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**Tanya Jakusconeck** - *Scotiabank - Analyst*

Okay, so maybe that is a safe number to use for the rest of the year, the 0.65 for the coarse ore reject?

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

Assuming that there is no change. But again, I want to insist that a coarse ore reject is very highly variable but that is what I am saying for our own internal purposes, we look at the year to date average and we use that to forecast forward.

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**Tanya Jakusconeck** - *Scotiabank - Analyst*

Okay. Thank you for that, Chantal. I just wanted to ask a question on one of your points on your first page which you highlighted that in light of current market conditions the Company is reassessing, working capital, development, sustaining, etc., etc. We didn't get any more explanation through the press release. Can you talk to us about what exactly you are seeing and is this dividend at risk because with the capital outlays that are coming, how do we allocate capital versus paying dividends?

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

Tanya, thanks for the question. It is Brendan. I think it wouldn't surprise you to know that we are reviewing our cost structure looking at all of our capital sustaining and development capital to make sure that we are only spending money we absolutely have to. We are being very efficient and very effective in terms of our allocation of capital. I think obviously you are well aware of what is going on in the market. If we weren't doing that we would be the only mining company probably in the world not doing that today.

So this is nothing out of the ordinary. It carries on from the work we were doing with evolving Ekati. We know that we need to get to a sustainable lower cost base to make future projects like Jay as profitable as possible and make sure that we are sustainable well into the future. So that is what is going on here. The dividend is not at risk. As you can see we still have a very healthy balance sheet, that gives us some comfort in these markets but we're trying to be we think it is prudent to be as careful as possible in reviewing all of our outlay of cash.

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**Tanya Jakusconek** - Scotiabank - Analyst

So it is not to be read that we may prioritize one project over another project in these market conditions like Sable over Jay etc.?

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**Brendan Bell** - Dominion Diamond Corporation - CEO

No, look, you will see when we come out with the prefeasibility for Sable after Christmas and the feasibility study for Jay at the end of Q1, you will see the work that we are doing. And Elliott can speak more to this but a lot of optimization work around Jay to get cost down. We mentioned of course we have had some headwinds from diamond price but there have certainly been some other wins around dike design and other areas where we are able to trim costs. So these are still very, very good projects. We continue to do work on optimization to make sure we get (technical difficulty) the mine plan.

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**Tanya Jakusconek** - Scotiabank - Analyst

Okay. And you touched it, in terms of news flow for the street, we will have a prefeasibility on Sable, is that coming out in January?

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**Brendan Bell** - Dominion Diamond Corporation - CEO

Elliott, why don't you talk to the release.

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**Elliot Holland** - Dominion Diamond Corporation - VP, Projects

We are targeting a Sable prefeasibility at the end of January and the Jay feasibility at the end of Q1 fiscal 2017.

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**Tanya Jakusconek** - Scotiabank - Analyst

Okay, and year end of Q1 I think that is April?

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**Elliot Holland** - Dominion Diamond Corporation - VP, Projects

Yes, that is correct.

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**Tanya Jakusconek** - Scotiabank - Analyst

And then we have in January still are getting approval, permits and approvals for Jay?

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**Elliot Holland** - Dominion Diamond Corporation - VP, Projects

We are expecting a decision on the environmental assessment, that is the first step of two in the approval process. After the Environmental Assessment decision is returned, it needs to be confirmed by the Minister and then we can supply our water license and land use permit applications which we are targeting for the end of calendar 2016.

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**Tanya Jakusconek** - Scotiabank - Analyst

And at that point is that when we are expecting a permit to be issued?

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**Elliot Holland** - *Dominion Diamond Corporation - VP, Projects*

Yes, that is the final step in the permitting process, the issuance of the water license and the land-use permit.

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**Tanya Jakusconeck** - *Scotiabank - Analyst*

That is the end of 2016?

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**Elliot Holland** - *Dominion Diamond Corporation - VP, Projects*

The end of 2016.

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**Tanya Jakusconeck** - *Scotiabank - Analyst*

And then commercial production for Misery Main in Q2?

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

Yes, we are going to start ramping up, we are going to see some dribs and drabs in Misery Main through the next couple of months, start ramping up through the first quarter and then through the second quarter essentially going to -- we would come from an accounting perspective, commercial production.

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

It is important for everybody to understand that Misery ore starts to come in here, we start to as we mine deeper into Misery and do the pushback we first start to get some carats very soon but really it is halfway through the year that we get into what is called commercial production and we see significant carats and then a lag again before Jim has his hands on the carats and takes them to market.

So think about in terms of the cash flow for Misery it is certainly H2 of next year, probably late in Q3 by the time that you are able to start getting some of these goods out to market, yes?

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**Jim Pounds** - *Dominion Diamond Corporation - EVP, Diamonds*

Yes, correct.

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**Tanya Jakusconeck** - *Scotiabank - Analyst*

Okay. And then what about 2016 guidance and new updated reserves and resources, when will that be shared?

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

Our plan is to produce our new resource and reserve statement to be issued pretty much at the same time with our year-end financial statement. So we will probably have the high level results by the end of March and then the detailed documents are going to be available sometime in April?



**Ron Cameron** - *Dominion Diamond Corporation - CFO*

Our year-end dates I believe are the middle of April for announcement.

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

And is that where the new guidance or the new mine plans, Ekati and Diavik will also be given to us?

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

Yes, that will all be part of the plan.

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

Perfect. I will leave it to someone else to ask further questions. Thank you.

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**Operator**

(Operator Instructions). Richard Hatch, RBC.

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**Richard Hatch** - *RBC Capital Markets - Analyst*

Thanks. Just a question on the financials. Loans and borrowings, just out of interest, can you remind us when your debt repayments will be the promissory notes please? And then secondly, just wondering if it makes any sense at all to slow Misery production given the weakness in the smaller stones market just to leave the carats in the ground for a better market? Thanks.

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**Ron Cameron** - *Dominion Diamond Corporation - CFO*

For the promissory note, the first prepayment was in November so we just made that payment.

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**Richard Hatch** - *RBC Capital Markets - Analyst*

And that was 10, right? That was 10, right?

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**Ron Cameron** - *Dominion Diamond Corporation - CFO*

Right around that I believe, yes.

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**Richard Hatch** - *RBC Capital Markets - Analyst*

And can you just say when your next payments are on it please?

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**Ron Cameron** - *Dominion Diamond Corporation - CFO*

It is an annual.

**Richard Hatch** - *RBC Capital Markets - Analyst*

Thank you. Thanks.

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

Richard, just in terms of the Misery production profile, I will let Chantal take you through that but there certainly was a discussion between Chantal and the production team and Jim as to the volume of carats and what the optimized approach to getting this out to market was as we sat down to design the approach to mining at Misery. But, Chantal, do you want to talk about that?

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

Obviously what we want to do right now, there is short term, there is no plan to change the mining sequence because that is pretty important. As Brendan explained, we are going start through it slowly, through Q1 but it is really going to take us pretty much the first half of this year of the coming year to get established in terms of production. So we don't expect really to do any change for next year. Should there be some extreme condition in terms of market, we can probably, we would possibly make some adjustment the following year. But again, it is easier to mine the goods, process them and have them ready for sale because obviously slowing down, stopping an open pit and restarting again comes with some difficulties as well. So right now short-term there wouldn't be any plan to change the work to be done next year. Once we are fully well-established into Misery Main maybe the following year if required market calls for it, we might slow down at that time.

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

I think an important point we've had the discussion you see from other producers that some are guiding to throttling back production, that has not been a choice that we would take and it largely is because the cost basis of our mining. We are in a remote area, it cost us a significant amount of money just to be there so we are trying to push the throughput as much as possible and if we decide that market conditions are such that we would like to keep goods from the market, that is a choice that Jim and his team make. We would far rather store them in a vault than in the ground if you will, Richard.

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**Richard Hatch** - *RBC Capital Markets - Analyst*

Fair enough. Thank you very much, team. Much appreciated.

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**Operator**

Yen Voo, Nomura.

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

Good morning, everyone. I have three questions. Firstly, could you give us some color on what you are looking at specifically on the point of reassessment of working capital? Is that on production cuts to reduce inventory that you are holding? And if you are pushed to close down lower margin pipes, which ones would these be?

Second question is it is positive to hear that the pickup in restocking post Diwali, but how does this compare to previous years?



And the last one would be do you have a view on the level of rough and polished inventory in the market and how long do you think it would take to clear this? De Beers obviously alluded to first half of next year and assuming that (inaudible) sales goes well on plan, what is your view on this if you have any? Thanks.

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

We are going to divvy up the questions here a bit. I think if I understood the question, the first one was on levels of working capital and our efforts to get working capital down. And I think probably we will go to Ron to talk about our strategy there. And then we will go back to Jim to talk about how this year's Diwali and the restocking as compared to the past years. And maybe Jim, your thoughts on what the polished and growth inventories look like and where they are being held currently and of course you don't have exact numbers but if we could provide some color? Ron, working capital.

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**Ron Cameron** - *Dominion Diamond Corporation - CFO*

With the working capital, when you take a look at the type of working capital that we maintain in terms of the supply inventory and fuel, we are continually looking at that in terms of what are the correct amounts, [amend] masses that we need and that is an ongoing process but we are spending more time looking at that.

And then as part of that exercise, we are taking a look at ways that we are working with our suppliers and we have been able to actually negotiate some consignment inventory on-site which has been very advantageous for us from a working capital perspective where we can actually bring the product up. We have it available for use but then pay for it when we use it.

There are other projects that we are looking at with our purchases as well really taking a look at the terms, just making sure that we are extending our payment terms as much as we can. But working with our suppliers to make sure that we've got the right product so that we have got Chantal and his team properly supported from that aspect.

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

And then Jim, over to you for restocking post Diwali this year as compared to last year?

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**Jim Pounds** - *Dominion Diamond Corporation - EVP, Diamonds*

I think what has happened this year is because the stocks of rough at a factory level were so low that maybe we have seen in terms of the timing that the restocking has come a little earlier where in previous years people would really get a bit more feel for the way that the season is going and get some sort of feeling of demand coming through before they took that decision to restock. Obviously because they had higher stocks than they have currently.

So the only sort of anecdotal evidence I can give at the moment is it is just happening a bit quicker and a bit earlier the normal. After so many months of being somewhat depressed, it is quite refreshing to see a little bit of a spring in the step of diamond dealers around the place. The second question?

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

It is around the rough and polished inventory that is really in the market at the moment because if we look at Alrosa and De Beers numbers from the sales and production for the first nine months, there is already about 11 million carats of inventory in the market in terms of rough. I am just wondering if you have any further insights into that? And the question following that is how long do you think it could probably take to clear this because De Beers alluded to by the first half next year it will normalize.



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**Jim Pounds** - *Dominion Diamond Corporation - EVP, Diamonds*

Yes, that is these sort of time that we have thought about it and of course the 11 million carats that have been put into the market I mean a lot of that has been manufactured. So I would say looking at polished inventories at the middle-market level has certainly decreased although I would think at the top end and bottom end they are still a bit sticky. But in the commercial ranges, the middle end definitely there has been a sizable decrease in the stock there.

And as I think during the presentation that Philippe Mellier said that he hoped to clear some of the stocks of rough out certainly in the first half of next year looking more positively at Q3 and Q4 next year. That is generally the indication and the feeling that we get for next year that the first half will have its challenges but once through that then we look to a better market in the second half and improving further until 2017.

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

Okay, thank you very much.

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**Operator**

Edward Sterck, BMO.

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

Good morning, gentlemen. I just wanted to ask two questions. The first is just on the changed guidance on the cost side. Cost of goods sold guidance is up and guidance on a cash cost basis is down. I didn't quite catch the beginning of the call so you may have mentioned this but I am assuming that is just on an inventory movement and I just wanted a bit more color on that and how inventory is accounted for?

Then the second question is for Jim and it is just on if we look at the Misery goods specifically, obviously they are looking pretty important for next year and years beyond that in particular. How is the market for those sorts of goods right now?

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

Maybe we will start with that last question first. Jim, do want to talk about Misery production and how that is faring in the market?

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**Jim Pounds** - *Dominion Diamond Corporation - EVP, Diamonds*

Yes, the Misery goods if we had them in this market would be a little bit challenged. They produce a nice small bright brown polished and of course some of the better colors as well. And what we have seen during this year is a decrease in the price of white goods which has a little bit of downward pressure on the brown goods. But of course the ultimate markets for the browns in Northern India and the Middle East where they have traditionally gone, they are a bit flat but we hope to see some development in that in the next six to eight months.

So if they were coming into the market at this very moment, I would think -- I would possibly think it would be a bit of a challenge but as we progress through next year really working with manufacturers who not only can publish these goods but get them into jewelry and luckily we do have the goods and the Misery satellites to be able to give some people a taste of that going forward, that it will be a much more how can I say -- adaptable and acceptable market as we get into the second half of next year.

So I am very positive about those goods because we have done some polishing ourselves just to see the polish that comes out of it and we are very pleased with the results of the polish that comes out, a very bright product.



**Brendan Bell** - *Dominion Diamond Corporation - CEO*

I think over to Ron probably to talk about your first question, Ed.

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**Ron Cameron** - *Dominion Diamond Corporation - CFO*

You are right, it is the inventory movement and margins and as Chantal talked about, the liberation testing has impacted the plant throughput and so with that and the cost that you have got, we are basically a high fixed cost processing plant. Those are the two impacts.

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

Okay, thank you very much.

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**Operator**

Ned Davis, North River Capital.

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**Ned Davis** - *North River Capital - Analyst*

Could you bring us up to date on exactly what your estimated reclamation liability is now? And we just tie together the extent to which your reserves are adequate, letters of credit, etc. to support that in the visible future? Really what I am driving at are we going to require any more of your free cash to be tied up or your future cash flow to be tied up to support the reclamation on the two mines?

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**Elliot Holland** - *Dominion Diamond Corporation - VP, Projects*

This is Elliot here. So the reclamation amounts are set in a process with our Water Board and those amounts are reviewed annually. There are typically minor changes from year to year in the calculations of those amounts and we post letters of credit or as we saw with their environmental bond earlier this year, we occasionally get cash recoveries based on those updates. But we don't expect any significant changes in the reclamation bonds over the next several years.

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**Ned Davis** - *North River Capital - Analyst*

Okay. Now one other question, you mentioned with regard to Jay that the length of the dike looks like it will be shorter than originally projected and I think you said something about steel costs being lower I guess also. (multiple speakers)

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**Elliot Holland** - *Dominion Diamond Corporation - VP, Projects*

Fuel costs.

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**Ned Davis** - *North River Capital - Analyst*

Oh, fuel costs, I am sorry. I didn't understand that. I guess what I'm really driving at is with Jay, I know you can't give us exactly what the feasibility study and theoretical value would be that you will report next year. But net net with regards to Jay, is the situation net the improved over the last six months in terms of the overall mix of things that will affect Jay?

**Elliot Holland** - *Dominion Diamond Corporation - VP, Projects*

I would say net net we have seen over the last year an improvement. The optimizations that we have done to the cost profile, the change in the overall price environment while negative on the diamond side has been very positive on the cost side with the depreciation of the Canadian dollar as well as the decline in price of some of our key inputs like diesel. So we feel quite good about our current terms of trade.

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**Ned Davis** - *North River Capital - Analyst*

And if everything goes on schedule for Jay for the permit approvals, when would you actually expect to begin production out of Jay if everything goes on schedule that you just sort of outlined in today's call?

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**Elliot Holland** - *Dominion Diamond Corporation - VP, Projects*

We would expect production from Jay towards the end of 2021.

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**Ned Davis** - *North River Capital - Analyst*

Okay, thank you.

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**Operator**

Kyle McLean, Haywood Securities.

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**Kyle McLean** - *Haywood Securities - Analyst*

I had a quick inventory question just on the coarse ore rejects. I assume they are booked, the inventories are booked at cost. I was wondering if the costs associated with the coarse ore rejects are substantially lower and if so are the market values of the rough inventory substantially higher than what they are held at on the books? Thank you.

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**Brendan Bell** - *Dominion Diamond Corporation - CEO*

Kyle, thanks for the question. I think we will take it between Chantal and Ron here. Chantal?

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

We don't differentiate coarse ore rejects, inventory is all booked as whatever we have got produced against the costs associated with producing it. And maybe, Ron, you want to --?

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**Ron Cameron** - *Dominion Diamond Corporation - CFO*

And costs are allocated to all of the production basically on a pro rata basis.

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**Kyle McLean** - *Haywood Securities - Analyst*

Okay. Thank you.

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**Operator**

Thank you. That is all of the questioners that we have in the queue at this time so I would like to turn the call back over to Brendan Bell for closing comments.

**Brendan Bell** - *Dominion Diamond Corporation - CEO*

I would just like to thank everybody for joining us today and the next time we speak to you will be 2016. So I think we would also like to wish you a Merry Christmas and hopefully you have a wonderful holiday season. We will talk to you again soon in 2016.

**Operator**

Ladies and gentlemen, thank you again for your participation in today's conference. This now concludes the program and you may all disconnect your telephone lines at this time. Everyone have a great day.

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