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DDC.TO - Q4 2016 Dominion Diamond Corp Earnings Call

EVENT DATE/TIME: APRIL 14, 2016 / 12:30PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Dominion Diamond Corporation fiscal 2016 fourth-quarter and year-end earnings results conference call. My name is Karen and I will be your operator for today's call. At this time all participants are in a listen-only mode and we will connect 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 of Corporate Development and Head of Investor Relations. Please go ahead.

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

Thank you, operator. Good morning everyone and welcome to our fiscal 2016 fourth-quarter and year-end 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 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 Brendan Bell.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Thank you, Richard. Good morning, ladies and gentlemen, and welcome to our earnings call for the fourth quarter and for a 2016 financial year. We've reported positive cash flow for the third consecutive quarter in what has admittedly been a weak Diamond market. As I commented in our last two analyst calls, we are in the transition to the very rich Misery Main pipe coming on stream in fiscal 2017, the revenue from which we will start to see in the second half of this year.

I'm going to begin by covering some of the main points and then I will turn it over to my colleagues to discuss different areas in more detail. I will then come back and conclude with some remarks about our overall business.

Despite the weakness in diamond price, we continued to generate positive free cash flow and adjusted EBITDA in Q4 which Ron can talk to. From a balance sheet perspective, the Company is well-funded with $320 million of cash and virtually no debt and a further $210 million available under our revolving credit facility. The Board has also declared a final dividend of $0.20 per share to be paid at the beginning of June.

From a growth perspective, we have adopted a twin-track approach to building our future. Alongside construction of Sable and the advanced valuation of Jay, we have started earlier stage work on the existing portfolio of kimberlites on the Ekati property and nearby, which Chantal and Elliot will speak to.

Let me now speak to the $19.8 million impairment of Ekati inventory. Q4 was always going to result in very low margins at Ekati as you would have seen from the implied low single-digit margin on goods available for sale at the end of Q3. In addition, diamond prices continued to fall in January. Jim Pounds will give you some further insights on the diamond market in a minute. Approximate 60% of the carats we recovered in Q4 were low value material from Misery Satellites and Coarse Ore Rejects, both of which are non-reserve material. Chantal will give you a more detailed explanation shortly.

But following the single sourced sampling of Misery Southwest material in October, we confirmed that Misery Southwest diamonds were of lower value than originally modeled. The weaker diamond price environment and the substantial number of low value carats produced meant we had to take an impairment on Ekati's work in process inventory at the end of Q4.

On the project side, we published the Sable PFS in February and are progressing the permitting of Jay. We expect to present the Jay feasibility to the Board in late May.

Speaking of the board, I would also like to welcome Jim Gowans to his role as Chairman. I look forward to working with him. His extensive knowledge of the global diamond industry and mining coupled with operating experience working in Canada's North will certainly complement the management team.

And I would also like to extend my deep appreciation to Bob Gannicott for his invaluable leadership, tireless contribution over the past 12 years as Chairman of this Company. He has been instrumental in building this Company from a junior explorer to the world's third largest diamond producer, truly a Canadian success story.

Let me now hand it over to the Chantal to comment on the Company's Q4 production.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Thank you, Brendan; and good morning, everyone. Let me first focus on what has happened at Ekati and the production aspects that led to the impairment. Then I will briefly update you on other operational aspects at Diavik and Ekati.

In the fourth quarter of last year, we processed some Koala underground material, a small amount of material from Pigeon and a substantial quantity of Misery Satellite material, almost all of which was from Misery Southwest Satellite Pipe and also some Coarse Ore Rejects. Overall for that period, the number of carats recovered from production was approximately 15% higher than what our models predicted. This continues to validate the revenue benefit of running the processing plant to maximize diamond liberation.

Two things of note happened. Firstly, as part of the diamond liberation initiative we begin in July last year, we decided to run single source samples of kimberlite material through the process plant to better assess the impact of the changes we made. One of those single source samples was 72,000 tons of Misery Southwest, which we put through the plant in October. Misery Southwest is an inferred resource with a grade of 2.2 carats per ton, which we believe add a value of $70 a carat.

Once this substantial batch of Misery Southwest material had been processed, the grade was demonstrated to be within the accuracy of an inferred resource estimate, 2 carats per ton versus our model that called for 2.2. But evaluation of the carats from this sample indicated that it was not $70 per carat as we had thought, the same value as Misery South and Misery Main diamonds, but between $40 to $55 a carat. Our guidance for this year takes into account what we have learned and we are therefore confident that we can achieve our production objective with a substantial amount of very high value Misery Main is scheduled for H2.

Now let me give you an update on the rest of Ekati. Pigeon moved in commercial production in January. The top of the pipe was, as expected, heavily diluted with till but we are now mining clean kimberlite. We processed the first production from Misery Main in March. We expect there to be approximately another two months of further waste stripping which needs to take place before Misery Main can be put into continuous production from June onwards.

As planned, we began waste pre-stripping at Lynx in December and this will continue until the end of the year. We expect very limited ore production from Lynx this year. The quarter also saw continued good production from Koala underground.

We then begin drilling at Fox deep in February. There's a significant resource of approximately 35 million tons below the bottom of the open pit, but to be of economic interest the grade needs to increase at depth, something which has happened at Koala. The objective of the drilling campaign is to better understand the grade of that resource.

While the main focus of the operation team is delivery of this year's business objectives, we are expending significant effort to continuously improve the operation at Ekati. Construction of the fine Diamond DMS circuit is progressing as planned and scheduled for commissioning in Q4. Significant productive improvements for both surface and underground mining activities have been made and a reduction in energy consumption has been realized. These gains have been built in our FY17 objectives.

Over the next few years we plan to mine approximately 3 million tons of Misery Main from the existing open pit. We are also evaluating options to access additional tonnage of Misery, possibly from two underground levels at the end of the current mine plan.

It is still early stage but this could provide additional high-value feed for our FY21 production plan. At Diavik, there was good news with the latest reserve and resource statement with A-154 North probable reserves more than doubling to approximately 4.7 million tons, or 11.1 million carats through the promotion of inferred resources and the addition of new kimberlite at depth. With this inferred material now converted to reserve status, this material will be included in a new life of mine plan for Diavik, which we expect will be delivered to us by the operator in the near future.

Finally, it is worth noting that despite a challenging winter road season with much warmer than usual winter temperature, both Ekati and Diavik were successful in bringing to their respective sites the required fuel, supplies and equipment necessary to execute their business plans. This included all the critical dike construction equipment for the A-21 project at Diavik, which continues to proceed according to plan. I must commend the winter road joint venture operations team for a job well done under very difficult conditions.

Thank you all and I will now hand you over to Elliot.

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

Thanks, Chantal; and good morning everybody. Let me first turn to Sable. As you know, we published the Sable PFS in February and reported a 10.1 million carat mineral reserve for the Sable pipe. Construction of the project has now started. We are comfortable that the economics of the project support a positive investment decision irrespective of the results of the Jay feasibility study. To date, we have signed contracts for substantially all of this year's construction program, completed engineering of the initial works, and mobilized a construction fleet up the winter road.

On March 31, we started hauling granite from the Bear Tooth waste drop pile, began building the all-season access road to Sable, which we aim to complete by September. After the road is completed, we can establish a base of operations at the Sable site for the construction of project infrastructure. The main work at the site will be the construction of water management facilities in Two Rock Lake. Two Rock Lake sits next to and downstream of Sable Lake, which is on top of the Sable kimberlite pipe.

A frozen-core dam will be built at the outlet of Two Rock Lake to control downstream discharge and a filter dike will be built across the middle of the lake to create two sedimentation cells. Once these structures have been completed next year, water will be pumped from Sable Lake into Two Rock Lake exposing the Sable lakebed for the start of pre-stripping in fiscal 2019. The CapEx budget for fiscal 2017 remains at $55 million, as stated in the PFS.

Turning to Jay, we continue to advance the permitting of the project. On February 1, the Mackenzie Valley Environmental Impact Review Board completed its report of an environmental assessment for the Jay Project and recommended to the GNWT Minister of Lands that the Jay Project be approved subject to the 22 measures described in its report. We are comfortable that we can comply with all of these measures without a significant impact to the investment case. The Minister is expected to make a decision in May 2016.

If the Minister confirms the Review Board's decision, we will file our land-use permit and water license applications shortly thereafter. Dominion's Board will review the Jay feasibility study in May. Without going into specifics ahead of the study, let me give you a flavor of some of the positives and negatives since we've published the PFS.

As you are aware, market prices in US dollars have declined since the publication of the PFS, which was based on October 2014 pricing. However, in Canadian dollars, pricing is actually about the same as it was in the PFS.

As part of our review of the 2015 bulk sample, the 1996 and 2006 samples are reinterpreted. This reinterpretation suggests all things being equal a marginally higher diamond price for Jay balanced by a lower grade than previously reported resulting in a net impact of a decrease in value per ton. It turned out that the sample plan slot screen configuration had been reported incorrectly resulting in over estimation of the likely recovery of smaller Jay diamonds in the Ekati processing plant. While an unfortunate result, this demonstrates why it was important for Dominion to do our own bulk sample.

However, the fines DMS circuit now under construction is designed to improve small diamond recovery and will result in a smaller decrease in grade compared to the PFS.

As I mentioned in the September call, last year we completed a geotechnical drilling program along the pit and dike alignment. The results are that we have identified a slightly shorter dike alignment and we expect that the feasibility study pit will have a substantially lower stripping ratio than the PFS due to our improved understanding of the geotechnical conditions in the pit walls. These are favorable for CapEx and OpEx respectively, although there are offsetting cost increases likely in other infrastructure and support CapEx.

We are reinvesting an early-stage exploration. The Board has approved a budget of CAD1.3 million to conduct exploration work on the Lac de Gras property, which we now hold a 55% interest through a joint venture with North Arrow Minerals. You may recall we conducted a systematic basal till sampling program on this property in 2013 using a track-mounted RC drill, which along with historical data suggested that there were at least three strong regional kimberlite indicator mineral trains extending across the property as well as several local trains and two site-specific anomalies.

The next stage of exploration will consist of data compilation work, airborne geophysical surveys and ground follow-up. We have also exercised our option to assume 100% ownership and 149 leases that were formerly part of the Diavik joint venture property. This area has been prospected

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in the past and was the subject of a desktop review by DDMI that resulted in their recommendation that most DDMI tenure on the eastern side of the Diavik joint venture property be released. This lease area, to be designated the Glowworm Lake Property, will now undergo in-depth review of available sampling and geophysical data to prioritize future areas for follow-up in 2017.

In addition, we have completed a desktop re-evaluation of several undeveloped kimberlites in the Ekati property that we are considering for further drilling in 2017.

Thank you and I will now pass you on to Ron.

Ron Cameron - *Dominion Diamond Corporation - CFO*

Thank you, Elliot. Good morning, ladies and gentlemen. As always, I'd just like to give a few highlights from our press release and give some further insight.

As we've highlighted before, fiscal 2016 was a transitional year for Ekati and the fourth quarter was the weakest quarter with a high volume of lower value carats produced and a 5% fall in diamond prices. The fourth quarter was also impacted by a $19.8 million, or $0.17 per share after-tax impairment related to work in process inventory and a negative $16.9 million, or $0.20 per share foreign-exchange impact on income tax.

During the quarter we generated positive free cash flow of $27.5 million from operating cash flow of $83.6 million against capital expenditures of $56.1 million as we continued to invest significantly in the Company's main development projects, as explained earlier in the call by Chantal and Elliot.

Fourth-quarter adjusted EBITDA of $49 million remained steady despite the fall in diamond prices. Despite the transitional year at Ekati and the significant investment in development projects, we continue to have a very strong cash position with $320 million of unrestricted cash while also maintaining a $210 million credit facility, which was undrawn at the end of the period.

We continue to benefit operationally from the weak Canadian dollar versus the US dollar. DDC reports and sells in US dollars but incurs the majority of its operating expenses in Canadian dollars. And to give you an idea of our foreign-exchange sensitivity, we've broken production costs into three categories; current cash operating costs, periodic costs and non-cash depreciation.

Current cash operating costs, and this is labor, contractors, and it makes up about 50% of the total cash costs -- or total cost. These costs fluctuate in US dollars terms as the Canadian strengthens or weakens. Periodic costs, and these are costs such as the diesel, ammonium nitrate and other storage inventory, make up approximately 25% of total costs, and they are purchased less frequently and are typically shipped up the winter road which operates from February to the end of March. And as a result the FX rate that applies to these costs will reset annually. The FX rate for diesel will relate to the applicable rate during the time of purchase of diesel in the prior year. And for items like ammonium nitrate, the FX rate is fixed during the winter road season when we move the ammonium nitrate.

Finally, non-cash depreciation is recorded at the historic FX rate and currently makes up approximately 25% of total costs. When we purchased Ekati, the dollar was around par. However, there had been annual additions to fixed assets and we've been undertaking significant development activities, which are recorded at current FX rates. Although the majority of these costs are still at the acquisition date historic rate of approximately par, our average depreciation and amortization rate for Ekati is now roughly $1.12.

What does that mean? Looking ahead to fiscal 2017, a $0.01 movement in the average Canadian/US dollar FX rate in a quarter is expected to result in approximately a $500,000 change in cash production costs for the quarter.

Let me now turn to the subject of the inventory impairment. We have 10 production and sales cycles a year and it takes on average approximately three months from when we recover diamonds in the process plant until they are sorted, valued and sold. The sorting and valuation process takes the majority of the three-month period and when it's complete, we classify these diamonds as available for sale inventory.

It is not until this stage in the inventory cycle that there is detailed pricing information available for these goods. Until we are able to give them a value, they are classified as work in process. Once again, detailed pricing information is not available until this stage is complete and the inventory is classified as available for sale.

As we completed the January 31, 2016 financial statements, we conducted our quarterly inventory valuation test against sales information from February and March as well as our valuation of the year-end WIP, which takes place after the end of the year as the diamonds are valued. Against the estimated net realized whole value and as a result, recorded and impairment of our work in process inventory of $19.8 million, which is included in our fourth-quarter cost of sales.

The inventory impairment represents the excess of inventory, cash and non-cash costs over net realizable value or the amount the Company realized or expects to realize upon the final sorting, valuation and subsequent sale of this inventory.

The value of production and therefore the margins in ending inventory in the fourth quarter was negatively impacted by a relatively high proportion of Misery Southwest and Coarse Ore Reject material, core material, which although being high-grade have a much lower price per carat. Upon completing the detailed valuation of this production, it was determined that the actual value was even lower than modeled and the inventory impairment was required.

Amortization of the capitalized stripping cost for Misery Satellite and Pigeon is on a unit-of-production basis. Accordingly, as production from these areas increased, there was a proportional increase in the depreciation and amortization recognized in the fourth quarter. While the non-cash cost production has risen from $28 per ton in Q4 2015 to $38 per ton in Q4 of 2016, I'd like to draw your attention to the fact that the same comparative period the cash cost of production has fallen from approximately $96 million to $82 million, a result of both the exchange rate and good cost management.

Also I would like to draw your attention to a change in the accounting policy related to the asset-retirement obligation which moved it from a non-monetary liability to a monetary liability. In other words, the cost of the environmental closures are recorded at today's exchange rate, not historic rate, which in the case of Ekati was the exchange rate at the time of acquisition which was almost at par. This has reduced Dominion's ARO liability on the balance sheet for its share of Diavik and Ekati from $458 million to $344 million.

In conclusion, I'd like to reiterate that we are comfortable that despite the large development projects ahead of us, we have a strong balance sheet which put 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, Diamond Sourcing*

Thanks, Ron, and good morning. As you all know, the US market is the largest market for diamond jewelry consumption and somewhere around 40% of that consumption takes place in the fourth quarter. Pleasingly there was a good end of year season and positive restocking has started in January.

China, the second largest consumer of diamond jewelry, is increasingly becoming two different markets. Hong Kong and Macau continue to be much weaker as a result of the slowing mainland tourist trade whilst in mainland China, where sales have flattened, the market has moved from being a diamond market primarily focused on pure luxury and more and more into a diamond market that's being driven by the expanding middle-class. Late last year the unusual seasonal weakness in polished demand was exacerbated by Chinese retailers not needing to buy any polished because they had overstocked in their continued expectation of the dash for growth.

However, this year one of the most encouraging factors at the recent Hong Kong show in March, was the reemergence of these mainland Chinese retailers into the polished market.

In India, there was definitely more interest in diamond jewelry during the wedding season this time, with interest returning after some years of flat growth. And encouragingly, the trend of purchases is moving more and more into regional chains and away from the traditional single-family jewelers. This indicates a trend of a wider interest in more varied jewelry designs, also that leads us to an indication that gifts of diamond jewelry extend beyond the more traditional gift giving occasions.

A lot of the markets outside the US are still under pressure from the strong US dollar, which means that diamond prices haven't fallen in local currency terms. But overall, there is a better picture now than last year.

While the story of last year was that of running down excess stocks of polished, what no one had realized was how short the market was of rough diamonds and the first sales of this year have seen a very good demand for rough. Consequently, the price fall in January was quickly reversed in February and there are definitely shortages in some categories of polished and therefore rough demand centered on what we call commercial goods, primarily SI1 type diamonds, which is classic in American/Chinese bridal.

On the other side, however, there is a continued weakness in the very cheap brown goods. Prices and are slightly higher than before the January price cut and we see and hope that prices will remain stable for the rest of this year.

Our last 18 month's sales contracts ended on December 31 last year, and the new contracts will be aligned to realize the change in production at Ekati where the blend of diamonds this year is more based on the commercial goods that I referred to earlier. So we are now in the process of finalizing slightly longer contracts this time.

I remind everyone that this quarter, which is the first quarter of fiscal 2017, we have two sales as opposed to three in the last quarter.

So just quickly touching on our CanadaMark initiative, interest in the Canadian market continues to grow at a retail level and are now talking to specific retailers about how to take this initiative forward.

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

Brendan Bell - *Dominion Diamond Corporation - CEO*

Thanks, Jim. The story of Ekati was always the story of accessing Misery Main's cash generating ability which we will realize later this year. We started construction of the Sable access road and we are progressing the feasibility study at Jay. We've also begun drilling at Fox Deep to ascertain if there is a development potential below the currently identified resource. And in addition, we are evaluating other opportunities on the Ekati property as well.

We have a strong balance sheet and we are encouraged by the recent rebound in prices in the diamond market.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Tanya Jakusconek, Scotiabank.

Tanya Jakusconek - *Scotiabank - Analyst*

Good morning, everybody. I have a couple of questions and so maybe I will start with Elliot and thank you very much, Elliot, for some color on Jay. Just wanted to know first off when you come out with your feasibility study on Jay, is it going to be just Jay standalone as it appears now that you've gone ahead with Sable on its own?

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

Thanks, Tanya. The Jay feasibility study will be incremental to all the other reserves on the Sable property, including all the other reserves in the Ekati property including Sable.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay, so it will incorporate Sable?

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

Yes. The investment case will incorporate Sable.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. And so thank you for giving us some color on the market prices on having declined in US dollars for Jay and are actually the same in Canadian. When you mention that you took the bulk sample and that value has decreased in dollar per ton, was that in US dollars or Canadian dollars?

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

The value of the Jay goods has decreased in US dollar terms since the PFS.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay, so the exchange rate obviously used at the time versus today will offset some of that decrease in dollars -- in value per ton?

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

Exactly. What we are seeing is on a Canadian dollar basis, the prices we are using in the feasibility study are very similar to the prices used in the pre-feasibility study.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. So that's helpful. Thank you. And then you mentioned that obviously taking this bulk sample then reviewing your -- the dike and so forth, you are seeing lower CapEx and operating costs because of the stripping. Obviously the CapEx would be the pre-strip operating costs because of the lower strip ratio. But you haven't given us an idea on the impact of the Canadian dollar or the oil price on these numbers?

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

I think we will get into that detail when the study itself comes out in a few weeks.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. And does the bulk sample and what you took have an impact on the reserves, the mine life of 11 years that you previously published?

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

Well, when we incorporate Sable into the mine plan, we will be co-processing Jay and Sable at the beginning of the project. So that has the effect of extending the mine life of Jay from the first pre-stripping to the last processing.

Tanya Jakusconek - *Scotiabank - Analyst*

Can you remind me what the mine life with the two combined would be?

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

We are looking at around 13 years.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay, thank you. Sorry, that was for both inclusion?

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

That's from the beginning of Jay mining to the end of Jay mining.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. And then maybe just how -- and maybe Brendan this is for yourself to take this question on how you are going to be looking at the case to go ahead with Jay. What sort of parameters or is it in an internal rate of return that you are looking for? How are you going to approach whether it's a go ahead or not?

Brendan Bell - *Dominion Diamond Corporation - CEO*

We are measuring it and evaluating the course on NPV and IRR. We do have an internal hurdle rate. It's not something that we've published in the past but I can tell you I wouldn't feel comfortable in putting something in front of the Board if it didn't at least get 15% IRR. We are going to run a number of sensitivities including how Jay would fare on flat diamond price, so you will see all of those scenarios and that evaluation as we come out with this post-Board discussion end of May.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. Is there anything that as you are looking at it that differs substantially from the pre-feas?

Brendan Bell - *Dominion Diamond Corporation - CEO*

I think you'll see those details but I think Elliot has given you the color that what we are seeing is very similar to pre-feas. Diamond price down? Yes. But the tailwinds from the CAD weakness have helped and there have been a number of offsets, which we will get into. Puts and takes, of course, as always the case when you are doing feasibility work. But, look, it's going through -- it's been a rigorous and very disciplined approach we've taken to evaluating this project including subjecting it now to third-party independent reviews before we put it in front of the Board. This is something that we are doing very carefully, taking obviously very seriously. It's a critical project for this Company.

So what you will see is that there's been a lot of work and evaluation going into this decision.

Tanya Jakusconek - *Scotiabank - Analyst*

And also I guess from redoing your reclamation obligation, that clearly has gone down, so that would be -- help obviously the NPV of the project too?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Yes, the benefit from Jay reclamation is that as we process material in the plant we will be able to refill some of our pits, the underground complex at Koala. That certainly is an assist to the overall cost of reclamation. That will be included, of course, in Jay feasibility when we come out with it.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. Well, we look forward to seeing that. Thank you. I will let someone else ask some additional questions.

Operator

(Operator Instructions). Des Kilalea, RBC.

Des Kilalea - *RBC Capital Markets - Analyst*

I was a bit late on the call so I may have missed it, perhaps it was addressed. When last we talked I think we talked about the potential for some life extension and the underground pit potentially at Fox. Just maybe some updates on that?

And then for Jim, a question on -- maybe you could comment on the liquidity position in cutting centers given the cutbacks in banks, where he sees it now given that the market has improved a bit. Thanks.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Why don't we start with Jim on the market.

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

Absolutely. One of the concerns that we had last year was the reduction in the availability of credit to the business. And one of the things that the market focused on towards the end of last year was actually reducing their stockpiles which we've now seen that they did very successfully indeed and focusing more on growing their business and reacting to the market very much aware that the possibility of reducing credit.

So cash was coming in. They were selling the goods and therefore they were in a much better liquidity position as we went into earlier this year than before. Although we have seen some of the banks showing should we say small amounts of reduced enthusiasm for the business, when I go around the cutting centers now and talk to the banks, they are very comfortable with the position that they've currently reached. Yes, I'm sure they reduced some of their lines, but in other words in and other terms, some of the more successful players in our business they have actually increased their lines.

So conversely to six to eight months ago, I think the industry is in a comfortable position at all levels of liquidity and the banks will obviously be looking to make sure that the current acceleration in business is maintained. And there's every indication that that will happen.

Brendan Bell - *Dominion Diamond Corporation - CEO*

And the drill program in the pit at Fox Deep, to better understand that resource, Chantal.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Yes, so as I mentioned, we've got a resource of about 35 million tons, what we call Fox Deep, which is below the existing open pit. We started the drilling in February, which is RC, so large diameter drilling, similar to what we've done at Sable last year. So we started the drilling in February and expect to complete that drilling by the end of April. From then we will treat the samples and we expect to get results from grade to valuation coming from Jim's team and put all these things together to complete our assessment sometime this summer.

And that's really the economic opportunities around Fox Deep. As we all know, Fox has very nice, very high-value stones and really for us is to understand is there a change of grade as we go at depth then? And the kind of change that we've seen as an example in Koala, so that's the plan right now for the work at Fox Deep.

Des Kilalea - *RBC Capital Markets - Analyst*

Thank you very much.

Operator

Richard Hatch, RBC.

Richard Hatch - *RBC Capital Markets - Analyst*

Thanks, and good morning, guys. Just a quick one on the Misery Southwest extension prices being lowered. Is that something you expect to remain as you've guided? Is it $45 to $65 a carat? And also do you see any risk of impairment on Misery as a result of the reduction in prices? Thanks.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Yes, Richard. We obviously have processed a significant volume of Southwest in the past year and it really wasn't until the bulk of material going through the plant was Southwest that we recognized that it was lower value. Of course, we have to mine this material in accessing the Misery Main orebody, but now our current approach for what's left -- and can't give you an exact number, but most of it we've been through -- but what's left is now being stockpiled. We will run that again through the sample plant before putting any more through the process plant to make sure that we do understand the value of those carats.

So I think we are in a place now where we are able to reassess and don't intend to process more of that material. Now that we have the luxury of having Pigeon and are into that production, we've got these options. So last year we didn't have much choice but to process it. This year we've got more flexibility, more ability to not put it through the mill if it doesn't release the value that we need.

Richard Hatch - *RBC Capital Markets - Analyst*

Okay. So no impairments expected -- anymore impairments expected?

Brendan Bell - *Dominion Diamond Corporation - CEO*

It's not our expectation. Of course we were through some of this Misery Southwest and it was in WIP. That's been sold through now. We are not expecting an impairment but look, we really have to see until this is finally -- the sales values are tallied up.

Richard Hatch - *RBC Capital Markets - Analyst*

Okay. Appreciate that. Thank you.

Operator

Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

Good morning and thank you. This is a question for Jim really I guess just on the Chinese retailers. With their return to the market, does this indicate that their de-stocking process is completely finished and are buying levels from mainland China back up to where one would expect given the reduction in working inventories?

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

Yes, and I think this is a good question, thanks, Ed, because I think there's a definite distinction between some of the larger retailers that are Hong Kong-based, Chow Tai Fook Chow Sang Sang and Luk Fook, where they are probably in their case they probably do have some inventory to work through. And I think it is that group of mainland Chinese who have really been able to get back in probably stocked a bit better than some of the big three with the benefit of hindsight and therefore, they've found themselves after a reasonably good new year season at the beginning of February looking to restock and they feel in certain discussions I've had with them, they feel quite positive about the market going forward. So we will see.

They restocked at the March show and then of course we've got the June show and the Las Vegas show coming up in Hong Kong and Las Vegas respectively. So yes, I think probably with the benefit of hindsight their stock handling and stock control process was probably a little better.

Richard Hatch - *RBC Capital Markets - Analyst*

Okay, thank you. And then just an extension to that question is, what's the rough estimate for the split in terms of Chinese demand between the mainland Chinese and the Hong Kong and Macau jewelers?

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

What, in terms of total value? (multiple speakers) I would say that it's about probably still dominated by the Hong Kong/Macau still by about 60/40, but I will have to check on that Ed and get back to you because Macau and Hong Kong really have been suffering a bit. So let me just review that and get back you on that one.

Richard Hatch - *RBC Capital Markets - Analyst*

Okay. Thanks, Jim.

Operator

Ned Davis, Wm Smith North.

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

Yes, thank you. Two questions. First of all, last year you engaged in kind of a strategic evaluation. You hired investment bankers. Have you basically dropped that entirely, that initiative, or is it still underway?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Thank you, Ned. Good question. No, we haven't dropped it. It is still currently underway. I can't give you a definitive date but I can tell you we are much nearer the end than the beginning of that process. But look, I think we will see at the end of May we will come out with Jay feasibility study and I expect at that point we will also be able to provide some more color on this strategic process.

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

Okay. Another question. You mentioned your free cash resources and this would be adequate going forward with your projected CapEx. Does that include the projected full development assuming you go ahead of the Jay Project? In other words, is that cash adequate for the Company assuming a reasonable amount of operating cash flow during the intervening period to go ahead and do the Jay investment without any additional new equity or debt capital?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Yes, Ned, that is the case and this really is because of the cash generating ability of Misery Main, which comes online in this -- the value of that rock very high grade, 4.7 carats per ton. Even at $75 diamonds in today's lower diamond market, this still is throwing off an awful lot of cash. And I think as you are aware, we also have joint venture partners who we expect to participate in Jay. So our cash producing ability is enough for us to fund our 65% of Jay.

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

So the joint venture partner is the ongoing partnership that you have? There are no new partners that I haven't heard about, are there?

Brendan Bell - *Dominion Diamond Corporation - CEO*

That's correct. (multiple speakers)

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

It's the existing Ekati partners? Okay. And then, it's always helpful to get this run down on the marketplace, India, China, etc. But I've kind of lost perspective on how significant each of the major markets in the world probably are for you. I know it's theoretically a commodity. But as a practical matter, I would think there are different weightings of influence. So could you just give us a thumbnail sketch of how significant you think China Mainland, China Hong Kong, India, Europe, US and other markets are for you? Can you give us an update of that? Looking forward, looking forward, not really looking back. Looking forward at Misery production and other production in the next couple of years.

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

Yes. Thanks, Ned. That's a good question. As we move forward, just basically we always judge that the US market is around 40%, China Mainland in Hong Kong we lump them together at 15% to 20%, India an 8% to 10% and then the rest of the world divided between those with Japan -- and remember Japan was once 30% of the market and has now dropped around (technical difficulty).

So as we move forward and if we look at our production particularly this year and we going into more commercial ranges of goods, certainly it is encouraging to see that when we see that in America really is a good market for these goods, is the main market for these goods and the encouragement that we see from the development of the middle classes both in India and China who are now becoming what we say the desire for diamond is growing and they are becoming active purchasers of these commercial goods.

So what we see going forward is not only is our ability to supply these markets because of our marketing mix changing slightly into these, it is also there will be some dynamic in the competition between these markets. So we feel very comfortably placed to be heading into the next years of the large Misery production.

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

About two years ago there were I think two very detailed studies of the long-term potential for the diamond market, which basically indicated -- both of them indicated -- a growing dis-balance in favor of demand over supply for the world marketplace. Is that analysis, in your view, still valid going forward as you look at all the different factors? I realize it's a complex marketplace, but that was a pretty strong conclusion. I think it was McKinsey and I forget the other big consulting firm that looked at this came to the same conclusion.

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

That's very correct, Ned. It was Bain who was the other one and we saw this gap between -- which we still believe in because of the reasons I just gave of the demand and growing demand that we get from the middle classes, the strong support of the American market. And we also see that the older diamond mines are probably falling away in terms of production. We will see some of the larger ones even close down in the foreseeable future.

As far as I understand the Argyle mine closing in 2020 or 2021, which is a vast amount of carats coming onto the market that won't be there anymore. So we will see this fall in the overall level of supply and the growth in the demand.

Of course there are other properties like Luarica in Angola and our own developments going forward which will keep a decent level of supply going. But that gap that Bain and McKinsey have both predicted we feel confident that we will be seeing -- that will help us increase diamond prices in the future.

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

Okay. Thank you very much. Appreciate it.

Operator

Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

Thank you very much. Brendan, just a question on Jay and financing for it. You commented just now that it is fundable, or it looks like it will be fundable from projected cash flows from the existing operations. Can you just give us some thoughts on how -- what the optimal shape of the balance sheet would be whether yes, it might be fundable from cash flows but would project finance be a more suitable method of financing, etc.?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Project finance is possible but it may not be where we want to go. We are having that discussion internally, Ed, you are right. The optimal structure will be something that we continue to discuss and debate internally here. As we mentioned theoretically, we could fund this all from our balance sheet and future production, cash generation from Misery Main, but of course we may determine that that's not optimal for us. But more to come on that, I think at this point, Ed, is about all I can say.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay. Thanks very much.

Operator

Tanya Jakusconek, Scotiabank.

Tanya Jakusconek - *Scotiabank - Analyst*

Thank you. Just wanted to ask about Note 26 on subsequent events that was stated on the buffer zone and your joint venture Archon Minerals that I guess have provided notice that they do not want to participate in some of the CapEx elements of your 2017 program. Can you just remind us what the dilution mechanism is? B, what exactly or dollar amount that they don't want to participate in? And C, is this indicative of their participation in Jay, which is also in the buffer zone?

Brendan Bell - *Dominion Diamond Corporation - CEO*

What I will say is that we understand that Archon is very excited about the Jay prospect, intends to finance their share of Jay. We are having an internal discussion about Lynx and about some of the Jay expenditures. But I think at this point, it's premature. We are waiting for some detailed feedback from Archon to understand exactly where their objections sit. I don't have the exact details of the dilution mechanism and the joint venture sitting here in front of me but hopefully we will land at that when we have to. We are still quite optimistic that Archon will choose to participate. But of course we have to plan for this possibility that they don't.

Elliot, are you aware of any of the dilution mechanisms, have that at your fingertips? Don't think you probably do, do you?

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

It's a straight line dilution mechanism for when we've been notified in advance of a non-contribution.

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Brendan Bell - *Dominion Diamond Corporation - CEO*

Yes, okay.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay so is this the first that we've heard from them on the not wanting to participate, and is it just specific to 217?

Brendan Bell - *Dominion Diamond Corporation - CEO*

We are having an ongoing discussion, I think, Tanya, is the best thing that I can say at this point.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. All right. Thank you. Maybe I will just circle back on this dilution mechanism a little later on off-line. Thank you.

Operator

Thank you. Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

Thank you. So I was late to the call and I came in in the middle of the discussion on the exploration opportunities outside of the existing operations. I just wanted to just ask if it would be possible to recap on what the expected news flow from that exploration is in terms of timing over the course of the next let's say 12 to 24 months?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Let's talk first about Fox and when we expect results from the Fox Deep drilling. Chantal?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

As I mentioned, Fox is expected to complete the drilling itself by the end of this month. It'll take us probably another three to four months to process the sample, do the valuation, so would expect to release some information and have an assessment done by midsummer.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Yes. And in terms of identifying other targets, other prospects, that is ongoing work, Ed. Of course we've got the HW properties south of Ekati and Diavik. We picked up what we refer to as the Glowworm Property that was vacated by Diavik. So we are assessing and evaluating possible targets there as well in addition to other kimberlites on our own Ekati property. And this would be work that we would -- drill work now as we switch seasons -- that wouldn't take place until winter of next year and then the results flow from that following summer likely.

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

And we are typically filing our exploration permits in the fall for the succeeding winter program.

Edward Sterck - *BMO Capital Markets - Analyst*

Great. Thank you very much.

Operator

Thank you. And that concludes our question-and-answer session for today. I would like to turn the conference back over to Brendan Bell for any additional comments.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Thank you, operator. And thank you all for joining the call. If you have any follow-up questions, those can be addressed either through Richard or Kelly Stamm in Toronto and look forward to talking to you again when we report fiscal 2017 first-quarter results. Thank you all.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone have a good day.

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