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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Dominion Diamond Corporation's fiscal 2017 second-quarter earnings results conference call. My name is Nicole 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 like to turn the call over to Kelley Stamm, Manager, Investor Relations. Please go ahead.

Kelley Stamm - *Dominion Diamond Corporation - Manager, IR*

Thank you, operator and good morning, everyone and welcome to our fiscal 2017 second-quarter results conference call. On the call today is Brendan Bell, Chief Executive Officer; Cara Allaway, Acting Chief Financial Officer; Chantal Lavoie, Chief Operating Officer; Jim Pounds, Executive Vice President, Diamonds; and Elliott Holland, Vice President, Projects, all of whom will be available to answer questions after the presentation.

Before we begin, I'd like to point out that this conference call will include forward-looking information. Various material factors and assumptions 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 recent 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. And with that, I will hand the call over to Brendan Bell.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Thank you, Kelley. Good morning, ladies and gentlemen. Thank you for joining our earnings call for the second quarter of the 2017 financial year. As usual on our earnings calls, I'm going to quickly run through the key highlights for the quarter before passing the call over to other members of the senior management team to review the quarter in more detail from their areas of responsibility.

During the quarter, we achieved some significant milestones. First, the sale of initial production from the Misery Main, albeit from the pre-commercial and production period, was an important accomplishment. The sale of Misery Main production marks the end of the transitional period for the Ekati Mine and we look forward to the positive impacts of Misery Main on our cash flow and earnings after the process plant restarts on September 21.

Next, in July, we announced the approval of the feasibility study and positive development decision for Jay. The additional mine life afforded to Ekati by the Jay Project provides the platform for future growth for the Company. And finally, we announced a revised capital allocation strategy that rewards our shareholders while ensuring sufficient capital is available to fund our growth strategy. As part of this strategy, we confirmed a base-level dividend of $0.40 per share annually, a share repurchase program and divestment of a non-core asset, our Toronto office building. During the quarter, we were extremely happy to announce the result of the building sale process, which closed yesterday and will positively impact our earnings and cash flow in the third quarter.

The second quarter was a challenging one, however. The process plant fire in late June resulted in a three-month shutdown of production at Ekati. As a result, we implemented a cost-reduction plan and shifted our production focus to the mining of our higher-value ore bodies. In doing so, we have successfully stockpiled higher-value ore that will be prioritized for processing when the plant restarts on September 21, helping us offset the adverse impact of a temporary shutdown. Chantal will give you more detail on the impact that the process plant fire had on our operations and also cost-saving initiatives later in the call.

Cash flow generation and earnings in the second quarter were negatively impacted by the process plant fire and the low value production of ore mined from the final stage of the transitional period for the Ekati Mine ahead of preparing for commercial production at Misery Main. More color on these impacts will be provided in a moment when Cara reviews the financials for the quarter. In spite of these challenges, we continued to generate positive EBITDA and maintained a strong balance sheet. Unrestricted cash balance is $180 million; no significant debt outstanding and an undrawn credit availability of $210 million on our existing credit facility.

We continue to invest in growth at Ekati with the previously mentioned approval of the Jay feasibility study in July and Sable construction advancing according to plan. Elliot will provide an update on these key development projects shortly. And finally, we are pleased that after the improved conditions experienced in the first quarter, sentiment in the diamond market remained steady in Q2 and Jim will take us through that in detail. Now let me pass the call onto Chantal to provide detail on our second-quarter production.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Thank you, Brendan, and good morning, ladies and gentlemen. As Brendan noted, the second quarter at Ekati was a challenging one operationally due to the process plant fire, which occurred on June 23. It was extinguished the same date with damage limited to a small area around de-gritting screen number three. Most importantly, no injuries were reported. Cleanup and repairs of the damaged areas has progressed extremely well and we expect to resume processing by September 21. Initially estimated at CAD25 million, the cost of the repairs are now expected to be approximately CAD20 million, or $15 million.

In anticipation of the restart, we have begun rehiring some of the workers that were temporarily laid off and expect to have the full workforce back by the end of September. We would like to thank the team at Ekati for their hard work and dedication in getting the plant back up and running on time, which will allow us to execute our plan to recover some of the delayed cash flow generation in the fourth quarter of this year.

Processing volumes and carats production were impacted as a result of the lost production time, with 0.9 million carats recovered from 0.6 million tonnes of ore processed. We ceased mining activities during the plant shutdown in lower-value production areas such as Lynx and Pigeon while continuing mining operation at the higher-value ore sources such as Koala Underground and Misery Main as part of our active management plan. Total ore mined was above plan and this has provided us with a stockpile of 123,000 tonnes of Misery Main ore and close to 200,000 tonnes of Koala underground ore by the end of the second quarter.

We continue to make excellent progress through the beginning of the third quarter and our combined stockpile of Misery Main and Koala stands at approximately 700,000 tonnes as of this morning. This stockpile will provide us with an opportunity to run a high-value blend through the process plant for the remainder of the fiscal year. It is expected to positively impact cash flow and earnings beginning in the fourth quarter and continuing into next year.

Allow me now to turn briefly to the impairment of inventory available for sale at Ekati of $6.4 million. Similar to the last two quarters, the inventory available for sale at the end of the second quarter was reduced during a period that was dominated by low-value carats from Misery Satellites.

Although the mining commercial production from Misery Main commenced in May, available-for-sale inventory did not contain a significant amount of this material. As a result, the positive margin contribution from Misery Main had a limited impact on the available-for-sale inventory resulting in some impairment.

Looking now at our capital project, the pre-stripping activity was paused at Lynx resulting in a reduction of the full-year guidance on planned capital expenditures of approximately $16 million. This is a timing difference as we defer pre-stripping until fiscal 2018. As noted on the last earnings call, in May, the final connection of the Misery powerline to the Ekati power distribution system was completed and will provide sufficient power for Misery infrastructures and will eventually connect Jay infrastructure to the main power plant as well. Our present schedule calls for energizing the Misery site by the end of September. Finally, installation of the fine dense media separation units, which was stopped during the plant remediation work, restarted earlier this week and is now expected to be completed before the end of the fiscal year.

Moving now to our exploration project. During the quarter, work continued on the sample taken from the drilling program of Fox Deep. As a reminder, during the first quarter, we recovered 925 tonnes from the drill program and have sent the entire sample to a research testing facility in Saskatchewan for processing. Results of the testing are delayed slightly and are now expected in the fourth quarter. We look forward to receiving the results of this sample as this data will help further define the grade of the Fox Deep resource. At approximately 35 million tonnes of resource, as currently defined, improvements in the grade of this resource could potentially provide another significant growth opportunity of the Ekati Mine.

Also, in July, the Company approved an additional $1.2 million exploration program intended to further define the full potential associated with Misery Deep. Mobilization of a drilling contractor was completed last week with the intent of completing the drilling during the course of the fourth quarter providing further information on the extent of the pipe at depth and the associated grade. This critical information is required to support a construction decision in 2017 calendar year.

From a health and safety perspective, the second quarter was a good one for Ekati. Environmental performance remained strong and we recorded just one lost time injury in the quarter, similar to the same period last year. Most importantly, we already implemented the knowledge gained from the process plant fire to ensure we can safely and sustainably resume operation.

At Diavik, the second quarter was another good one from an operational perspective. Second calendar quarter production continued the momentum from the first quarter and year-to-date carat production and ore processed were in line with guidance, while Canadian dollar cash operating costs were slightly below guidance. A-21 development continues to progress well, on or ahead of plan in respect of major construction phases. We expect DDMI to close the dike this open water construction season as planned.

Let me close by reminding everyone that we will be filing an updated technical report for the Ekati Mine on September 15, which includes an updated life-of-mine plan that incorporates the Jay feasibility study and the impact of the process plant fire. Thank you and I will now pass the call to Elliot to provide an update on the development projects.

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

Thanks, Chantal and good morning, everyone. Starting with Jay, the major milestone in the quarter was obviously the completion of the Jay feasibility study and the resulting approval by our Board of Directors to proceed with construction of the project based on its positive economic results. Our mobilization and construction program is nearly complete for calendar 2016 with crusher and powerline commissioning expected in the next couple of weeks on budget.

On permitting, on July 19, we received our early works land use permit, which primarily covers all aspects of the 2017 construction scope, including the all-season access road to the project site. The water license process has begun in earnest with initial comments and our application received. Technical sessions are scheduled for October 4th to 6th and public hearings scheduled for December 13th to 15th in Yellowknife and Behchoko. We expect to receive the water license and final land use permit in mid-2017 covering the construction and operations scope from 2018 through closure.

Sable remains on track. On the environmental side, we successfully renewed the land use permits for both the haul road and pit and conducted fish salvage operations in Two Rock and Sable Lakes. Construction also advanced according to plan. The all-season access road reached the project site on August 24. With access established, the focus has now shifted to site construction, including establishment of a quarry, construction of site roads and paths and preparation for construction of a frozen core dam at the outlet of Two Rock Lake this winter. We continue to expect the start of pre-stripping at Sable in February 2018. Thank you and I will now pass the call to Cara.

Cara Allaway - *Dominion Diamond Corporation - Acting CFO*

Thank you, Elliot. Good morning, ladies and gentlemen. On this call, I will focus on a few key highlights and unusual items that impacted our financials in the second quarter. The process plant fire and subsequent production shutdown had numerous impacts on our earnings and cash flow in the second quarter and will have ramifications for the remainder of the fiscal year and our outlook for the year.

During the quarter, we expensed $22 million or $0.17 per share after tax of mine standby costs related to the process plant fire, including $5 million of direct expenses related to the cleanup and repair of the affected areas of the process plant. Mine standby costs also include indirect operating costs that would normally be allocated to diamond inventory.

During a prolonged production shutdown, these costs are instead taken directly to the income statement as operating costs. As a result, we expect to expense an additional $33 million of mine standby costs in the third quarter prior to the process plant restart later in September.

The active management plan executed at Ekati after the fire has resulted in some cost and cash savings. The pause of mining operations at Lynx and Pigeon combined with the temporary layoff of nonessential mine staff resulted in cost savings of approximately $7 million in the quarter and is expected to reduce costs in the third quarter as well. As both Lynx and Pigeon pipes are in a phase of waste stripping, these cost savings will be primarily realized through a reduction of capital costs.

Once again, the impact of the transitional phase at Ekati while Misery Main is prepared for commercial production weighed on our results in the quarter. The presence of a high proportion of low-value Misery Satellite carats and available-for-sale inventory at quarter-end resulted in a $6.4 million or a $0.05 per share after-tax inventory impairment. It is important to note that we have approximately $15 million of pre-commercial production from Misery Main remaining in inventory at July 31, which is expected to be sold in the third quarter.

After this pre-commercial production is sold, all sales from Misery Main will be from commercial production. Although the positive impacts of that production will only be reflected in our earnings beginning in earnest when the first production from Ekati after the process plant fire becomes available for sale late in the fourth quarter.

Earnings in the quarter were further impacted by an $8.8 million or $0.10 per share foreign exchange impact on income tax. Adjusted EBITDA in the quarter of $35.4 million was down significantly from the same quarter of the prior year primarily as a result of the process plant fire impact on earnings. The fact that adjusted EBITDA remains positive shows that we continue to generate cash from our mining operation in spite of the challenges we faced during the quarter.

Free cash flow was negative $21 million for the quarter, which was due primarily to a significant investment of $55 million in capital expenditures as we continue to invest in the growth of the Company through the development projects described earlier on the call by Chantal and Elliot. Increased depreciation and amortization costs continue to drive a large difference between earnings and cash flow generation. As a reminder, the increase is due to the commencement of commercial production at Misery Main and the associated depreciation of the capitalized stripping costs associated with the pushback of the open pit.

Depreciation costs at Ekati in the quarter were $41 million versus $32 million in the second quarter of last year. Going forward, the increase in depreciation costs will be partially offset as a result of the approval of the Jay feasibility study in July and the extension of the mine plan to fiscal 2034. A large portion of Ekati fixed assets are depreciated on a straight-line basis over the life of the mine.

We finished the third quarter with a strong balance sheet with $180 million of unrestricted cash and $210 million of undrawn credit availability in our existing credit facility. Our balance sheet will be strengthened further by the sale of our Toronto office building, which closed on September 8 for CAD85 million. After customary adjustments, this transaction is expected to result in a significant gain in the third quarter since the building has a book value of $19 million and associated liabilities of $4 million, which includes the mortgage on the building. Thank you. Jim will now provide an update on our sales in the diamond market in the quarter.

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

Thank you, Cara and good morning, ladies and gentlemen. We completed three sales in the second quarter, but our overall level of sales was adversely impacted by the continued presence of low production from the Misery Satellites at Ekati and the process plant fire. However, we were encouraged by the sale of the first production of Misery Main in July albeit from the pre-commercial production period as Cara mentioned previously. With this initial sale, we were very pleased with the price of Misery goods, which confirmed the model price we reported in July after the sorting of the Misery Main production trial.

Next, I'd like to talk to you about our pricing disclosure. You will notice that despite a relatively flat diamond market over the quarter that our prices have shown some variability as compared to our Q1 guidance. This is a combination of three factors. First, we have started giving the price guidance to the nearest dollar amounts rather than rounding to the nearest $5. This is done in an effort to help show the more subtle price changes, especially in the lower-priced ore bodies.

Next, we updated Ekati pricing to align with the current recovery profile for the Ekati process plant. This will align with our reserve reporting from the upcoming technical report and our production results. Finally, Misery South prices, which have been lowered as a result of some updated modeling work. While the price decrease is sizable, Misery South has a limited contribution to our mine plan.

Back to the markets, after a hectic first quarter, which saw a substantial uplift in demand for rough diamonds, business in the second quarter remains steady in what is traditionally a more subdued trading season. Low inventories held by manufacturers at the beginning of the year have been replenished and rough inventory was polished in the expectation of positive demand from the US and a return to more regular business levels in both India and China. As a result, we think it's fair to say that a mood of cautious optimism has returned to the trade for the second half of the year.

The US continued to be one of the best performing geographic markets for the diamond industry, and as discussed during our Q1 earnings call, the diamond trade went to the Las Vegas Jewelry Show in June with diminished expectations, but despite slower traffic and buyers focusing on exact purchasing criteria, overall business at the show was positive. Since then, retail jewelers have faced some headwinds in an election year and business has proven to be very regional with the individual states that rely most heavily on income from energy production proving to be the most challenging. Overall though consumer confidence in jewelry purchasing in the US remains positive.

China remains a challenging environment for retail jewelers as the softness in the property market combined with a lack of momentum in the stock market have dampened consumer sentiment. Despite these temporary headwinds, both Hong Kong and mainland-based jewelers remain focused on the immense potential of the market and continue with their expansion plans. Their attention is on the growing middle class and their desire to own diamond jewelry. Consequently, retailers are transitioning their product mix from high-end statement pieces to the more commercial ranges, which means they are competing for the same goods with the US buyers. This competition for the commercial ranges of diamonds underpins our thesis with respect to key growth in demand for the type of diamonds we produce.

Hong Kong remains under pressure as the Hong Kong dollar has strengthened making it a more expensive place to visit, so luxury tourism has somewhat decamped to the other markets of the Far East, mainly Japan, but even there, Chinese customer numbers are waning.

In India, a good monsoon season, after two poor ones, has certainly brightened the outlook for jewelry retail business as it approaches the forthcoming Diwali and marriage season. This optimism was reflected at a recent IIJS show in Mumbai. In addition, a positive collaboration between DeBeers and the Gem and Jewelry Export Promotion Council to launch a generic advertising campaign for jewelry has added to the overall optimism. Conversely, uncertainties around the application of the incoming GST, goods and services tax, to jewelry has proven to be a slight impediment to what promises to be a good season.

The industry is now looking for a repeat of the 2015 positive season and there is an expectation of growing levels of demand for Diamond jewelry in the fourth quarter, especially in the US, where approximately 40% of the consumption typically takes place. In India, with the traditional season beginning with Diwali and then moving on into the Indian wedding season, which runs from mid-October through to early next year; and then Chinese demand, which will build up in advance of the Chinese New Year in early February. In the US and other markets, the outlook for the traditional holiday season leading up to Christmas remains positive.

Turning to our CanadaMark initiative, we remained focused on the online marketing channels to build awareness of our product. We are very encouraged that the story of Canadian diamonds resonates with our target consumer group, the millennials, and this is evidenced by high engagement levels on social media when compared to other major diamond and jewelry brands.

In addition, we are increasingly engaged with our two leading mine-to-market pilot projects, Diamonds Unleashed, where we are the main brand partner and exclusive supplier to their jewelry collections, and Brilliant Earth, with their signature bridal collection. We are also expanding our focus on retailer support with promotional material for our partners, as well as training programs to educate their sales staff, as well as developing further co-branding/marketing efforts.

So in conclusion, we are encouraged by the outlook for a stable diamond market for the remainder of 2016, and this continues to support our outlook for the diamond market in the long term. We continue to believe that we are well-positioned to capitalize on these positive trends as the demand for diamonds we produce remains robust and the demographic trends in the key emerging markets, such as China and India, continue to underpin our thesis for long-term growth in the diamond market, particularly in the lower-priced segment of the market. Thank you and I will now hand you back to Brendan.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Thanks, Jim. As the teams explained on the call, it was a very busy quarter with the challenges presented by the process plant fire at Ekati. I am very pleased with the response from our team in executing a strategy that reduced costs by pausing operations at our low-value ore bodies while focusing on the mining of higher-value material. This strategy has us well-positioned to run a high-value blend of Koala underground and Misery Main ore when processing restarts later this month. This shift of focus to the mining of high-value material should allow us to recover the earnings and cash flow that was delayed by the process plant fire.

I'm also pleased to reinforce the benefits of our revised capital allocation strategy first outlined in July. It is a strategy that balances the funding of our internal growth opportunities with near-term return of capital to shareholders, the basis of which is a $0.40 per share annual dividend and a share repurchase program, which we commenced in August with nearly 600,000 shares repurchased and canceled during the month. This capital allocation policy is supported by our strong balance sheet, which is further enhanced by our focus on core assets and the decision to divest of our Toronto office building. We were extremely pleased with the outcome of the sale process, which closed yesterday at a price of CAD85 million.

Finally, as you will have seen in our news release, we are very pleased to welcome Matthew Quinlan to Dominion in the role of CFO. Matt joins us after having worked a number of years in investment banking, most recently as Managing Director and Co-Head of Mining for CIBC.

So let me conclude this earnings call with a brief summary of key points. Despite the process plant fire and its impacts on the quarter, we stand poised to restart processing on September 21 with a blend of high-value ore from Koala and Misery Main. We end the quarter with a strong balance sheet, further enhanced by the sale of our Toronto office building allowing us to execute on our revised capital allocation strategy, and we announced the addition of Matthew Quinlan to Dominion in the role of CFO. I am confident Matt will be a great complement to the team.

Thank you very much for listening to our earnings call this morning. I would now like to welcome your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Des Kilalea, RBC.

Des Kilalea - *RBC Capital Markets - Analyst*

Good morning, everybody. A few questions. The first is we are going to get additional -- $33 million of additional costs -- standby costs -- in this quarter. Will we also see further impairments on the Misery Satellite goods? On Jay, can we get an idea of what kind of CapEx will be spent on Jay this year and next year? And then on the plant feed, we are going to get a sweeter mix into the plant for this quarter and next. Does that suggest that from Q1 to Q2 next year, it will go back to normal run-of-mine mix of ore? And then just finally, do you still -- when you sold the luxury brand, I think you kept some of the cash in United States dollars and some was in Canadian dollars. Could you just maybe elaborate on that?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Sure. A number of questions there, Des. If we miss any of them, just restate and we will pick them up. First to Cara. Obviously, you are right. The process plant fire and mine standby charges impact both Q2 and Q3. We are working our way through. We are largely through this transitional material and now about to and anticipate eagerly, of course, the restart of the process plant and getting into Misery Main goods, which will significantly improve our outlook. But, Cara, any thoughts on Des's first question?

Cara Allaway - *Dominion Diamond Corporation - Acting CFO*

Sure. So the new production that will hopefully start later this month will be the higher-value Misery Main, as we discussed. In terms of impairment, it a quarterly test, so we will do that again at the end of October and we will compare the carrying costs of our inventory to the then current market prices at that time.

Brendan Bell - *Dominion Diamond Corporation - CEO*

And Chantal?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Yes. On the blend, while we expect again -- you are right -- so for the rest of this year, essentially the blend going to the process plant is going to be a combination of Misery Main and Koala. Obviously, all this is additional material that we've mined and have not processed. And to your point -- and you will see that coming next week when the technical report is published. You will see effectively that going into Q1 and Q2 of next year -- actually going back into next year -- that we will transition back into a normal blend that's going to also include Pigeon and some of the other ore. You will have again that detail profile for next year and the life-of-mine plan available next week.

Brendan Bell - *Dominion Diamond Corporation - CEO*

And probably Elliot on Jay CapEx.

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

Yes. What we are guiding for the rest of the full fiscal year for Jay is $44 million and then for next year, it should be similar, in the low $40 million range. The feasibility study had next year at $41 million and that continues to be our expectation.

Des Kilalea - *RBC Capital Markets - Analyst*

Thanks very much. And then the last one, it's just a curiosity question was, when you sold the luxury brand, I think some of the cash might have been kept in the United States for various fiscal reasons. I'm just trying to work out are you getting some benefits for exchange rate conversion into Canadian dollars from that money?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Cara, do you want to take that on?

Cara Allaway - *Dominion Diamond Corporation - Acting CFO*

Sure. Well, the majority right now of our unrestricted cash is held in US dollars.

Des Kilalea - *RBC Capital Markets - Analyst*

Okay, thank you. It's in US dollars, right?

Brendan Bell - *Dominion Diamond Corporation - CEO*

That's right.

Des Kilalea - *RBC Capital Markets - Analyst*

Thank you very much.

Operator

Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

Thank you very much indeed. So I missed the beginning of the call, I'm afraid, because I had a clash with this, but you may have covered on this, but the insurance claim for the plant fire and the business interruption, is it possible to quantify some kind of timeline for that process and do you have any expectation as to what you might be able to recoup? That's my first question.

And then the second is just on diamond pricing. If we look at the implied value of the inventory, it does look as though prices could be lower in terms of received pricing in the third quarter assuming that just material from inventory is being sold, but it does look like quite a stepdown. So if my numbers are right here, for Ekati, we could be as low as $57 a carat and for Diavik, $66 a carat. Are those numbers too low? Should we be looking at something higher than that?

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

Well, should I do that one first, Ed? This is a traditional period when we do two things. Firstly, it is a very seasonal business for the lower-quality goods, so it's not -- our normal approach to this is to stock these goods until it becomes salable again in the fourth quarter. As the factories approach the Diwali shutdown -- and remember, Diwali is two weeks earlier than it was last year -- then they tend to not require so many of these more complicated, cheaper goods to produce and those come really back into vogue probably in Q4. And this is a reasonable, seasonal change.

The other thing is what we've done is, with the shutdown of the process plant, has given us a little bit of a hiatus in terms of the sorting. And with the Misery goods coming in from the Misery Main, we've changed some of our sorting lines to be able to produce a new range of sales parcels when we get back into the more -- the higher-action period of Q4 in these cheaper goods. So it's a regular seasonal thing plus a planned buildup of inventory to have the right goods and really a change in our sorting sales offerings to the market.

Brendan Bell - *Dominion Diamond Corporation - CEO*

And, Ed, just on the insurance claim there, and I think we've discussed this on the calls before, but there are two elements of this. The more complex piece obviously is business interruption, as you point out. We've now got far better line of sight on the property claim. We've indicated we estimate that at about $15 million, so we expect to close that aspect of our claim far sooner than the BI element, which really is about looking in the rearview mirror at our plans and then seeing results go forward. We are working with our forensic accountants to make sure we put forward the most robust claim possible. I can't give you a timeline for resolution of that claim, but, as I say, it's clearly more complex than the property element, so it will take some time.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay. Thanks very much.

Operator

(Operator Instructions).Tanya Jakusconek, Scotiabank.

Tanya Jakusconek - *Scotiabank - Analyst*

Good morning, everybody. I have a few questions also. Maybe I will start with some of the -- it gets dangerous when a technical person starts asking accounting questions, but anyways, just wanted to talk a little bit about -- coming back just on the impairment again. So I understand that we will be having to look at what the Misery South goods are at the time obviously in the quarter when the impairment is looked at. Can you just give us an idea of is there a lot of Misery South that we still have to go through?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Maybe that's best to be answered first by Chantal.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Yes, Misery South, you'll see that plan coming up next week, Tanya. There is very, very low quantity of Misery South to come, to be mined, and right now basically our plan is to stockpile it and set it aside. So really there is no intention in the near future to process this material. We are just going to stockpile it.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. So I will wait then for that to come out. And I guess similarly, Chantal, if I have you on, you mentioned the stockpile of about 700,000 tonnes between Misery Main and Koala underground ore that's going to be moving through the plant in Q3 and Q4 -- I guess not Q3, mainly Q4 and Q1 of next year. Will we have more details on that stockpile, the grade and so forth in the study, or maybe you can provide that for us now?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Yes. You will have a profile of what's coming up in the technical report. You are going to have a profile of that in a bit more detail. I would say right now when we start the process plant, we talk about the 21st. We feel very comfortable we are going to have -- we talk about 750,000 tonnes of that material, and then we will continue mining it. So all the production, all the process tonnage this year will come from Koala and Misery, and a high level, it's probably going to be two-thirds/one-third. Just again -- we produce at about 120,000 tonnes a month from the underground and about 200,000, 250,000 tonnes a month from Misery Main. So that's pretty much going to be the ratio, high level, between now and the end of the year.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. So that's very helpful. And just to confirm with the new study coming out, the Diamond Liberation Initiative impact and the new reserves are also going to be in that technical report?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Yes. It's all built in, and you will see the place where it's going to be the most obvious is when you look at the trend. If you go back to 2013, you look at the grade of Misery Main, you'll see that since 2013 a report of 2014, the grade went up. You will see now with this report coming in that the Misery Main is really -- you will see again an improvement into the grade, which is driven by two things. Obviously, the inclusion of fine diamonds, which can help, but also now we've basically built in what we believe is appropriate assumptions that take into account the changes we did in the process plant. So you will see that trend. And I would point out Misery Main is the area where it's going to be the most obvious because it's got a lot of additional fine diamonds, so obviously the fine DMS helps it and the fact that we've improved liberation. That's going to become very obvious when you compare the numbers.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. Will there be more on that $70 million of deferred stripping? It seemed a bit higher than what we were expecting size wise and we just wondered if that's been a change with the new life-of-mine plan post this mill fire, or was it always $70 million?

Brendan Bell - *Dominion Diamond Corporation - CEO*

Yes, why don't we go to Cara for that one?

Cara Allaway - *Dominion Diamond Corporation - Acting CFO*

So I think the $70 million you are referring to is the outlook for production stripping and that would be the number for the full year, so that's incorporating the current mine plan.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. With the fire? Okay. And maybe, Cara, since I also have you on the line, if I could just talk about -- you mentioned that you are going to see -- you saw savings of $7 million in Q2, and you said you were going to see a further reduction in Q3. Can you give us an idea of what we would be looking at and where exactly is this coming through? Is it through cash costs, through CapEx? Where are we seeing it?

Cara Allaway - *Dominion Diamond Corporation - Acting CFO*

Sure. So the $7 million is primarily achieved through the reduction of -- the suspension of mining at the two pits, so that was for about a month in the second quarter. It's going to be suspended for approximately two months in Q3. And in terms of where it shows up is -- for Lynx, you see that in the reduction of development capital, so a reduction in the waste stripping at Lynx. For Pigeon, Pigeon is in production, so the waste stripping in Pigeon is part of the production stripping of that $70 million.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

And if I can add, Tanya, the savings are driven obviously by labor, reduction in labor costs. Energy also. That's a big ticket item, so because we are burning less fuel, less energy. So these are probably the two biggest ticket items, and then there's some indirect support costs associated with reduced energy consumption and reduced workforce.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. That's very helpful. And maybe just for Jim, if I could. Just on the model pricing, now we are into the smaller screen size, the 0.5 versus previously at 1.0, can you just give us a little bit of color? We had not changed the screen size, what sort of pricing -- we are trying to understand how the screen size has changed our pricing, if at all?

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

Well, the screen size obviously would bring the size frequency distribution down. That would have the major impact on the pricing. It wouldn't impact the quality or the color; it's just the size frequency distribution on that.

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

Tanya, I think if you take a look at the technical report next week, we have a good pipe-by-pipe evaluation of the impacts of the cut-off sizes and the fine DMS.

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

Yes.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay, all right. No, that's what I was looking for. Okay, and then we will wait for next week. Okay, I guess we will need to wait a lot for next week and the Investor Day. So I will get off-line and let someone else ask questions. Thank you.

Operator

Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

Thank you very much. I just wanted to ask about the share repurchase program and just to get some feeling for how far down the 10% that previously had been granted for the intention is to go, and are there any limits in terms of what percentage of daily volumes can be repurchased and so on?

Brendan Bell - *Dominion Diamond Corporation - CEO*

I can probably go to Cara to give you more details on the number of shares that we were tracking to the end of the quarter, but it's our intention to buy the regulatory max, Ed. I think we've had this discussion. We've set the parameters in motion and that is our intention. So, Cara, do you want to provide a little more detail on where we landed with share numbers and dollars at the end of the quarter?

Cara Allaway - *Dominion Diamond Corporation - Acting CFO*

Sure. So, at the end of August, we had repurchased about 600,000 shares and that was for CAD6.9 million, and, as Brendan said, right now, [the intent would be] -- it's capped at our regulatory limit.

Brendan Bell - *Dominion Diamond Corporation - CEO*

So we continue to buy daily, Ed.

Edward Sterck - *BMO Capital Markets - Analyst*

But I guess one of my questions is, in terms of the mechanics of it, are you limited to buying 10% of the daily volume and no more, or is it totally at the Company and management's discretion as to how many shares are purchased in any given day?

Brendan Bell - *Dominion Diamond Corporation - CEO*

We set the parameters in place, so we've given the parameters over to those purchasing the shares. That's in motion. That's in process. Yes, you are right about the regulatory caps and maxes, and so as we run up against those that shuts it off for the day, but we continue to purchase each day and that's our intention.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay. Thanks very much.

Operator

Thank you. At this time, I am showing no further questions. I'd like to hand the call back over to Brendan Bell for any closing remarks.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Okay. Look, I'd like to thank everybody for joining the call and also apologize for the technical difficulties we had with our service provider this morning. Any follow-up questions can be addressed through Kelley. We look forward to talking to you again when we report fiscal 2017 Q3. Have a good day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.
