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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Dominion Diamond Corporation's fiscal 2017 third-quarter earnings results conference call. My name is Kaylee and I will be your operator for today's call.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I'd now like to turn the call over to Jackie Allison, Vice President, Investor Relations. Please go ahead.

Jackie Allison - *Dominion Diamond Corporation - VP, IR*

Thank you, operator. Good morning everyone and welcome to our fiscal 2017 third-quarter results conference call.

On the call today is Brendan Bell, Chief Executive Officer; Matt Quinlan, Chief Financial Officer; Chantal Lavoie, Chief Operating Officer; Jim Pounds, Executive Vice President, Diamonds; and Elliot Holland, Vice President, Projects. We will all 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, Jackie. Good morning ladies and gentlemen.

By way of introduction, Jackie joined us last week as VP of Investor Relations. She comes to us with a combination of buy side and sell side IR experience, so we encourage you to reach out to her with any questions you might have. Welcome to the team, Jackie.

Thank you all for joining our earnings call for the third quarter of fiscal 2017. As I normally do on these calls I'm going to quickly cover the key highlights from the quarter prior to passing the call to the rest of the senior management team to cover off the quarter in greater detail from their respective areas.

The third quarter saw a few key achievements in our mining operations which Chantal will discuss in greater detail later in the call. First, at Ekati we restarted the process plant on budget and slightly ahead of schedule on September 21 following the fire that occurred at the process plant in June. In addition, on September 15 we filed an updated technical report for Ekati which incorporated the positive results of the Jay feasibility study and the integration of Sable into the mine plan as well as the impact of the process plant fire on the processing schedule.

Our mine plan at Ekati now extends to fiscal 2034, showing the culmination of our team's hard work in advancing our organic growth opportunities to development. This is an achievement that we are very proud of at Dominion.

Looking to the future we continue to be excited about receiving the results of the Fox Deep drill program in the fourth quarter providing further information on the potential for a large-scale underground development. During the quarter we made good progress at our development projects as Elliott will describe. At Ekati the Sable access road reached the project site in August allowing for the start of construction at site.

At Jay permitting continues to progress as planned. Finally, at Diavik the A-21 Dike was closed in September as scheduled and on budget. This milestone greatly derisks the A-21 project and we are very pleased with the progress to date.

From a financial performance perspective the third quarter contained the first sale of commercial production from the high-value, high-margin Misery Main open pit. While the overall level of rough diamond sales in the quarter was low, the positive influence of Misery Main on our margins has begun to show on our financial statements. Matt will follow later on in the call to provide more color on our financials for the quarter.

Looking at the execution of our capital allocation strategy, during the third quarter we completed the sale of our Toronto office building, monetizing a non-core asset and further improving our liquidity. We also started the repurchase shares for cancellation through our previously announced buyback program during the quarter, demonstrating our confidence in our stock and returning capital to shareholders as promised.

During the quarter there was some new developments from our rough diamond marketing initiatives. Jim will discuss these later in the call and highlight recent developments in the rough diamond market.

We are encouraged by the recovery and sale of a number of fancy colored stones in the quarter as well as the sale of the largest gem quality stone recovered from Ekati to date, the 186 carat stone sold in September for $2.8 million. The recovery of the stone was particularly encouraging as it came in June during the processing of early ore from the Pigeon open pit.

The lower end of the rough diamond market experienced the usual seasonal slowdown in the lead-up to the Diwali holiday. But the demonetization announcement in India in November has provided a shock to the market, but we anticipate that although that will have a negative impact it will be only in the near term and will recover after that.

In spite of the challenges we are currently facing in the Indian market we are encouraged by positive signs in the US, our largest market, and from China. Jim will discuss these markets in greater detail later, but we see them as a counterbalance or a hedge, if you will, that helps stabilize our near-term outlook.

We continued to focus on cost optimization. In the quarter we announced the relocation of our corporate office to Calgary with expected annual cost savings of CAD19 million.

These cost-cutting measures are integral to our growth plans. This is another step in our efforts to ensure the sustainability of our business.

Operationally, we've come through the transition period and are optimistic about the future of our business as we move more high-value Misery Main ore to final sale.

Now let me pass the call to Chantal to provide further insight into our operations from the third quarter. Chantal?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Thank you, Brendan, and good morning everyone. During the third quarter we achieved two important milestones at Ekati. First was the restart of the process plant on September 21.

As a reminder, the process plant at Ekati had been shut down since the fire that occurred on June 23. I would like to once again thank the team at Ekati for their hard work and dedication in helping get the plant safely back on its feet on budget and ahead of schedule. Major repairs that were required to get the plant running were prioritized but some minor repairs to be completed in the spring.

When completed the total cost of the repairs is expected to be approximately $17 million, most of which has been spent. The restart of the plant has allowed us to put the second phase of our active management plan into action which includes the prioritization of high-value Misery Main and Koala Underground ore through the remainder of this fiscal year.

You will have seen from our guidance that we are now expecting to produce approximately 5.3 million carats this year at Ekati, very close to our original guidance for fiscal 2017 before the fire at the process plant. The increase from the guidance included with our Q2 results is largely due to an increase in the expected tonnage to be processed from the very high-grade ore from Misery Main.

The second milestone achieved during the quarter was the filing of our updated technical report for Ekati on September 15. Incorporating the impact of the process plant fire, the positive results of the Jay Feasibility Study and the integration of the Sable project into the mine plan.

Combined the inclusion of these organic growth projects has extended the Ekati Mine life to fiscal year 2034. This is a major achievement and a game changer for our Company when you consider that at the time we acquired Ekati it had a mine life that ended in fiscal 2019.

Mining performance at Ekati was strong in the third quarter with mining at the Misery open pit and Koala Underground ahead of schedule. At Koala we are set to begin the development of two new underground levels in the first quarter of fiscal 2018. Note that these two levels are not in the ore reserves and are therefore incremental to the technical report mine plan.

During the third quarter we restarted mining activity at the Pigeon and Lynx open pits. Mining activities had been postponed as part of our active management strategy to minimize the cash flow impact of the process plant fire of the Ekati operation.

Our strong performance in mining operation combined with the process plant downtime has led to a stockpile balance of approximately 2 million tonnes as of today. Within this stockpile 400,000 tonnes are from the high-value Misery Main and Koala Underground and a further 900,000 tonnes of ore has been stockpiled from Pigeon. The current plan foresees prioritization of the Misery Main and Koala Underground material for the remainder of this year and the beginning of fiscal 2018.

The stockpile gives us significant flexibility to respond to market condition by adjusting the ore blend to market demand.

Looking now at our capital projects, as mentioned before pre-stripping activities restarted at Lynx with the first ore expected late in the fourth quarter and commercial production in the first quarter of fiscal 2018. The installation of the fine DMS media separation units is almost complete with pre-commissioning of the units planned for later this month. The ramp-up of the fine DMS unit will continue through Q1 of fiscal 2018.

Finally, sustaining capital continues to reflect the deferral of non-essential projects to fiscal 2018 to mitigate the cash flow impact of the fire. Full-year sustaining capital is now expected to be approximately $105 million including $71 million of capitalized stripping cost.

Now for an update on our exploration project. During the third quarter work continued at the Saskatchewan research facility on the 925 tonne sample taken from Fox Deep with results expected before the end of the fiscal year. We are excited to see the results of this drilling program as the 35 million tonne indicated resource at Fox Deep has the potential to support another large-scale organic growth projects to add to our development pipeline at Ekati.

In addition, the $1.2 million drill program at Misery Deep is going well and expected to be completed early in January. This timing continues to support the potential pre-feasibility study by mid-fiscal 2018 followed by a decision on construction before the end of the year.

Health and safety performance was very strong in the third quarter and, in fact, it was one of our best quarters in terms of safety record. During the quarter there was only one lost time injury which translates to a lost time injury frequency rate for 200,000 hours worked of 0.2 for the quarter. Environmental performance in the quarter remained strong, as well.

Turning to Diavik, performance during the quarter was mixed. Tonnes processed was high during the quarter thanks to good ore availability. However, grades were impacted by increased underground dilution from granite sloughing from the open pit walls.

As a reminder, both A-154 South and A-418, our open sky underground operation as the crown pillar, was mined out at both ore bodies at the end of the life of the open pit, leaving the underground workings open above. This means that any granite sloughing off the lower pit wall will ultimately make its way to the underground.

Although this type of dilution is normal and expected the amount of dilution in the third quarter was higher than anticipated and lower grades were encountered as a result. The team at Diavik has looked at the impact of dilution on the full-year production targets for calendar 2016 and has revised the expected carat production to 6.9 million carats. It is worth noting that this target foresees fairly high carat recovery in December and therefore the final number may end up slightly lower.

Thank you and I will now hand the call to Elliot for an update on our development projects.

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

Thanks, Chantal, and good morning everyone. At Ekati the primary development work in the quarter was the continuation of construction of the Sable project. The all-season access road reached the project site in August, allowing for construction to start at the site during September and October.

We established a quarry within the footprint of the future open pit and constructed site roads and pads. The next major milestones for the project are the construction of a frozen core dam at the outlet of Two Rock Lake and the Two Rock filter dike.

Preparations are now well underway for construction of the dam. We have assembled the frozen core plant and cleared the dam footprint in preparation for excavation of the key trench.

We were also able to bring forward the construction of most of the rock fill shelf for the Two Rock filter dike which had previously been scheduled for next year. Cost performance thus far has been excellent below our budget expectation.

Based on the good progress to date at both Sable and in open pit mining across the property we expect to be able to start pre-stripping at Sable well ahead of schedule as early as the third quarter of next year, two quarters earlier than previously planned.

At Jay we commissioned the crusher and power connection. We energized the crusher using the new Misery powerline and successfully completed a test run from October 3 to 28.

On permitting we continue to make progress with the water license process. We participated in technical sessions in early October and have submitted all the required filings on time in advance of public hearings scheduled for December 13 to 15 in Yellowknife.

We continue to expect to receive the water license and final land-use permit in the middle of next year, covering the full construction and operation scope through the mine closure. At Diavik the major milestone in the quarter for the A-21 project was the closure of the dike which occurred on schedule and on budget. With the dikes closed several significant risks are now behind us.

The major in-water work is done in the remaining construction activities are much less weather dependent. The A-21 project team is well advanced in their preparations for both the upcoming winter road and the final year of dike construction. We continue to expect the start of pre-stripping at A-21 in early calendar 2018.

So in summary we are very pleased with the progress we made during the quarter at all our key development projects. All projects are tracking on budget and on time with Sable actually ahead of schedule. Overall we are well-positioned as we move into the winter construction period.

Thank you. And I will now pass the call on to Matt.

Matt Quinlan - *Dominion Diamond Corporation - CFO*

Thank you, Elliot, and good morning ladies and gentlemen. It's a pleasure to join you for my first earning call as CFO of Dominion Diamond.

In the third quarter we reported consolidated net income attributable to shareholders of $28.8 million or $0.34 per share. Earnings in the quarter were buoyed by the closing of the sale of our Toronto office building in September for CAD85 million or $0.46 per share after-tax. Divesting of this non-core asset allows us to reinvest in our core business and return capital to shareholders.

The process plant shutdown reduced sales revenue and resulted in an additional $22.4 million or $0.18 per share after-tax in mine standby costs. As a reminder, these mine standby costs include direct expenses related to the cleanup and repair of the process plant as well as indirect operating costs that would normally be allocated to the cost of production when the plant is in operation. The mine standby costs are net of an estimated insurance recovery of $6.7 million for property damage.

As noted in our MD&A, we do have business interruption insurance but any amounts receivable cannot yet be determined. We will comment further in future quarters.

Finally, from an earnings perspective although relatively stable in the third quarter compared to recent periods foreign exchange fluctuations during the quarter resulted in a tax expense of $5.5 million or $0.06 per share. As Brendan mentioned earlier on the call, the third-quarter results benefited from the first sales of commercial production from Misery Main and the beginning of positive margin and cash flow impacts we expected from this very high-value ore. With the completion of the pushback at the Misery pit and the end of the transitional period at the mine gross margins were $22.2 million or 21.6%.

It is notable that for the first time since the second quarter of fiscal 2016 margins at Ekati were positive. Free cash flow in the quarter was negative $35.4 million due to the aforementioned impact of the fire on cash flow from operations combined with a significant cash investment in fixed assets of $62.1 million. Total cash flow for the quarter was positive, however, when we include the proceeds of $65.1 million from the sale of the Toronto office building.

Buoyed by the positive cash flow generated in the quarter, we once again finished the quarter with a strong balance sheet with $408 million of available liquidity composed of $198 million of unrestricted cash in addition to $210 million of undrawn availability on our existing credit facility and no significant debt. A strong balance sheet allows us to invest in our organic growth opportunities described earlier on the call by Chantal and Elliott while continuing to return capital to shareholders.

In keeping with this commitment, we started buying back shares under the previously announced share repurchase plan, spending CAD20.2 million in the quarter to purchase approximately 1.7 million shares for cancellation. We continue to repurchase our shares under this normal course issuer bid.

Finally, we have updated our cost of sales guidance for the year for Ekati to $352 million and for Diavik $285 million since the last guidance update provided with our second-quarter earnings in September. The primary reason for the decrease is a revision in our sales expectations to account for the recent demonetization initiative in India. As Jim will comment, we expect that this will result in a temporary decrease in demand for smaller lower price rough.

So in summary our strong liquidity position combined with our expectation of accelerating cash flows positions us well to fund our organic growth projects internally while returning capital to shareholders in a disciplined manner.

Now I will pass the call up to Jim to provide some color on the diamond market during the third quarter.

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

Thanks, Matt, and good morning everyone. The diamond industry in the third quarter has without question improved compared to a year ago. Despite a number of short-term pressures the current market fundamentals have stabilized enough to support a new wave of sustainable growth that I expect to continue in the medium to long term.

During the quarter it was evident there was downward pressure on cheaper rough diamonds and while it is not unusual to see some negative volatility at this time this year demand for cheaper rough was particularly rooted. Increased supply of cheaper rough was evident on the market as major producers were reluctant to hold these ranges in stock. However, demand for these articles is seasonal and Q4 and Q1 are usually the times when these goods are back in demand as the workers return to the factories and jewelry manufacturers look to replenish their inventory.

Expectations of a return in the cheaper end of the market have now been delayed following the demonetization announcement in November. And I will discuss this later detail when we focus on the Indian market.

As is typical during this quarter the main attention of the trade was focused on the lead-up to the holiday season sales period, especially on US retail demand. Despite positive economic data coming from the US market for polished sales there was some caution as stocks increased in the run-up to the Diwali shutdown. However, the market has been heartened by the robust demand in the US and the National Retail Federation predicts US holiday sales to jump 3.6%, and this could be further bolstered by a reported rise in Thanksgiving and Black Friday online sales of 18% compared to last year.

Recent reports of sales at Tiffany and Sterling suggests slower growth for the major jewelers amid sluggish tourism spending and shifting consumer preferences towards less expensive pieces. As was evidenced by the positive reaction at the Hong Kong Jewelry Show in September, the retail markets in mainland China are improving despite the headwind of a strengthening US dollar.

It also appears that Chinese customers are more prepared to buy domestically rather than in Japan and Europe which was noted earlier in the year. Even Hong Kong demand seems to have turned a corner and sales declines of recent periods appear to be bottoming out.

It is also evident that the range of Chinese demand is widening with more demand for commercial goods than ever before and they are accepting lower colors, including some of the brown ranges. Specialty cuts are particularly popular as customers seek something with product differentiation. So fancy cuts are now sought out in a market that until recently was dominated by round brilliant cut diamonds.

In India the retail outlook for the third quarter was more buoyant than any time in previous years as the industry put the retail strikes that have affected growth in the first half of the year behind them. A good monsoon season and pay increases for the civil service and military led to reasonably positive Diwali demand sale season and there was heightened anticipation that a good wedding season would follow.

However, the demonetization initiative in early November soon changed the outlook. And despite a brief spike in demand that was witnessed soon after the news of the demonetization, a slowdown in demand for jewelry is expected in the medium term with smaller jewelry retailers and manufacturers, sometimes referred to as the unorganized jewelry sector, being the most impacted. However, in the long run the move could turn out to be positive for the larger and more organized jewelry retailers as they would benefit from a more level playing field.

From the point of view of our own customer base, the larger diamantaires who are almost entirely export based, they should not be impacted much by the demonetization. However, small- and medium-sized players carrying out local trade and sourcing are expected to see an adverse impact as their businesses were entirely transacted in cash. And they not only relied on the unofficial banking system to finance much of their business but were also the main suppliers of the unorganized jewelry sector.

We are very encouraged by the continuing demand for our CanadaMark diamonds and becoming increasingly evident that the high level of environmental stewardship and the single source provenance of a CanadaMark diamond resonates well with retail diamond consumers. We are also very pleased to be able to other this level of confidence in our melee ranges of smaller diamonds and the pilot project launched during the quarter has attracted a lot of interest from the retail trade.

So in summary, the diamond market in the third quarter has improved over the third quarter of last year. There are also positive signs for the retail jewelry market in both the US and China and, of course, the demonetization in India has had an impact on the middle of the market for cheaper rough but this is expected to be only temporary.

Thank you. And I will now pass the call back to Brendan for some final remarks.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Yes, thanks, Jim. So as you've heard from the team the third quarter was a productive one, primarily featuring the restart of the process plant at Ekati.

We deferred non-essential spending and are maximizing recovered value from the plant by prioritizing high-value Misery Main and Koala underground ore from stockpiles that we built up during the shutdown. The third quarter saw the initial positive influence of Misery Main on our earnings and we will see a greater benefit on our earnings and cash flow in the upcoming quarters as we begin to sell the carats recovered post process plant restart.

To summarize what you've heard on this morning's earnings call, we successfully restarted the process plant at Ekati and have begun to see the positive influences of Misery Main on our earnings and cash flow. We look forward to an increased contribution for Misery Main as the process plant continues to run a high proportion of Misery through the remainder of fiscal 2017 and into next year.

And although recent events in India have presented temporary headwinds in the market we are confident that this has not impacted demand from end consumers and will only have a short-term impact on demand for cheaper rough. The bottom line is our outlook for growth and diamond prices is unaffected, supported by growing demand and constrained supply.

Finally, we've come through and out of the transition period in our mine plan. We are poised for improving financial performance which will allow us to execute on our capital allocation strategy of investing in our pipeline of organic growth opportunities while also returning capital to our shareholders.

Thank you for your time on the call this morning. We would now like to open the call for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Richard Hatch, RBC.

Richard Hatch - *RBC Capital Markets - Analyst*

Good morning, Brendon, good morning team. Thank you very much for the call. Just a few questions.

Firstly, I know it's really difficult to have a view on it but do you have any feeling as to how long this Indian demonetization fallout lasts? And when do you expect the market to see some stabilization?

Secondly, with smaller stones seeing some challenging prices what's your thinking around the Jay project at the moment? And then thirdly, Jim, I was interested because I've heard the comment a couple of times about more of a level playing field off the back of this repeat demonetization, so perhaps can you just give a bit more color on that, please? Thanks.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Sure. We will go to Jim and maybe the Jay question first. Look, it's got a very strong feasibility study that we've put out.

We are very confident that the Jay makes good sense and a solid investment. The investment thesis, obviously, when we are out selling Jay goods into the market in the early 2020s post-Argyle is a strong one, is a sound one and so our view has not changed in any respect. Jim, do you want to talk about the India situation and look into your crystal ball and tell us what you see in terms of recovery?

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

My crystal ball is D color flawless, I can tell you that.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Wonderful.

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

Hi, Richard. How long is it going to last? What is encouraging to me is we are seeing the first shoots of normalization coming back into the business.

It really is to do with the unofficial transport and banking business known as the Angadias. Really that has caused the slowdown in the system as they are really rely on cash money, and let's face it, 98% of the Indian economy is run on cash, to be able to transact business and move the stones to the smaller cutters that are on the outlying districts of Gujarat. So once these people feel confident and they have got their cash into the new notes, as it were, then we will see the industry getting back to normal.

Don't forget that all this time people are selling the polished. So there is product flowing out, and what I feel we will see is quite a rush to return to get some more product because it is a seasonal item that should be moving at this time of the year. So I'm very pleased to see that we are seeing some movement towards normalization of this product, but let's just see over the next weeks how this momentum builds.

So to be able to give you a definitive answer of how long I refer to Brendan's crystal ball. But let's see. We will keep you posted on any improvements on that.

Level playing field. 60%, 65% of the jewelry business, probably even 70% is a cash transacted business by smaller jewelers who are traditional jewelers that have served families for a long time, have served small communities, villages. And this was really a cash-related business, whereas the big jewelers, the more well organized sector, shall we say, the Popley, Tanishq and people like that have already run a business that is based more on normal fiscal and commercial ways of doing business, in which case there's anybody spending over INR200,000, probably $2,000, $2,400, has to produce a PAN card, an identity card to be able to transact their business and, therefore, they are liable to attract the interest of the Indian tax authorities.

So the more that we get into more normal business and the smaller unorganized sector has to become more official then we will see the advancement of the bigger players and the more regular business that the millennial generation are far more attracted to in ways of doing business because I feel that the product the Tanishq particularly put out is very much aimed at the new buyers of diamonds. So that's what I mean, the level playing field will come about as the unorganized sector becomes more official and allows the organized sector a greater market share. I hope that answers your question, Richard.

Richard Hatch - *RBC Capital Markets - Analyst*

It does. Thank you very much, Jim.

Operator

(Operator Instructions) Tanya Jakusconek, Scotiabank.

Tanya Jakusconek - *Scotiabank - Analyst*

Yes, good morning everybody. Thank you. I have several questions.

So maybe what I could do is continue on the diamond market with Jim, if I could. I understand we've talked a little bit about India. Maybe we can move back to China and the US and maybe, Jim, what are you seeing right now in the US market that makes you think -- are we expecting or do you expect an above-average holiday season spending?

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

As I said we saw some interesting comments from the, I can't remember the name of the people just off the top of my head at the moment. But on my travels around India and around Israel just more recently there is definitely a heightened expectation of a good season in the US. I don't think it will be outstanding.

The US has been hampered in the run-up to the election and in some of the oil states, as it were, have not been performing quite as well. But now the election is behind and, obviously, with the stock market roaring away there is a feel-good factor that we hope will translate into a better sales season.

I think where we have seen evidence of this improvement is in the online business. But not only on Thanksgiving Day, Black Friday but also on Cyber Monday most of the online businesses and being in Israel that's the focus the high-tech part of our business. They were all reporting particularly strong activity going into the season.

Now this may be a little bit of cannibalization from the more regular ways of purchasing jewelry from bricks and mortar stores. But it does look I would say expectations will be met and I hope may be just about exceeded. Let's see.

Tanya Jakusconek - *Scotiabank - Analyst*

And yet you have Tiffany, Neil saying maybe it's not going to be as great?

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

Yes, well, Tiffany really has been suffering from the lack of interest from tourists with the euro heading almost towards parity with the dollar and probably fewer Chinese traveling to the states and people probably wanting to avoid the disruption of the elections. Tiffany has been suffering on that score.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. So you think it's more of a specific thing to Tiffany?

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

It is. Particularly when you think of their flagship store in New York is right next to the Trump Tower.

Tanya Jakusconek - *Scotiabank - Analyst*

The Trump Tower I know I was there the other day. Okay, and maybe Jim just on China and why you are a bit more optimistic there besides just Hong Kong?

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

Yes, what I've seen is really what we've been talking about for some time and in discussions with not only our Indian clients but on the visit to Israel last week there was definitely some movement as we expected into the commercial ranges and even into the lower commercial ranges. And this is evidence to me that the long expected buying power of the middle class is now turning its attention on jewelry.

What I do like to hear is that as I mentioned in my script it's not just dominated by round brilliant cut diamonds. There is some product differentiation coming in, and there is more category marketing coming in using specific shapes and some of the more regular fancy shapes. So it is looking, I would say, looking to a future that's a little bit more, has a wider product range and is more interesting than before, and hopefully this will drive some greater interest from the middle classes in buying our product.

Tanya Jakusconek - *Scotiabank - Analyst*

So to sum it up, if we have a decent holiday season in the US and decent in China, that will help offset your lower quality Indian goods do you think for Q4?

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

I would hope so. We would look to see some of the restocking that we saw last year probably not quite aggressively as last year. I prefer a more gentle restocking personally.

But if we do see that happening, yes, then Q4 and going into Q1 will look good. The slight, how can I say, drag to that may be some of the time it will take the Indian market which is 8% to 10% of our business, the local retail market to get back into more normality.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay, that's perfect. Maybe if I could then move onto Chantal on the technical side. Good morning Chantal.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Good morning.

Tanya Jakusconek - *Scotiabank - Analyst*

I wanted to come back to Diavik again and I just wanted to get a sense from you when you came up with or when Rio came up with a target of 6.9 million carats for this year, what dilution was incorporated into that guidance and what mining dilution did you actually get in your Q3 versus what was planned?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

That's a pretty good question. I think the mining dilution on average at Diavik it's a combination, remember there's two different mining methods. There's the sub-level caving method that's applied to 418 and 154 South which is higher dilution, so the estimates were for that mining method to be about 5% and there's long hole blasting for with backfill on the 154 North. Dilution in that mining method on average is about 2.5%.

So that's basically what was built in the plan. What happened in the third quarter is really the sub-level caving method where dilution was much higher was in the 7% and 8% range. And that's really what drove the average, if you were to look at the detail you would see that it's really 418 and 154 South that were impacted.

So that's the change that's really from the plan to what actually happened. And what the team has done over the course of the last few months they really rescheduled things, obviously, taking into account what they know now and, obviously, focus on some areas where they feel better they can control the waste.

There's a lot of effort by the team to try to remove that waste dilution underground or in the pit when they move it from underground to stage it in the pit and before going into the process plant. So that's really what happened around dilution.

Tanya Jakusconek - *Scotiabank - Analyst*

Good to know. And so if I was to look at it from a simplistic nature, as we look at that 6.9 million carats do we assume that you have moved the dilution from that, let's say, 5% range to 7% to 8% for Q4?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Yes, they took that into account and, obviously, there's some rescheduling of the various production area. Yes it's taking it into account.

Having said that, and that's like I said in my section earlier, they've obviously got some challenges. Dilution it is not an exact science, but I feel comfortable they are working pretty hard to control that.

Tanya Jakusconek - *Scotiabank - Analyst*

And maybe how has the month of November/December been?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

It's been definitely better. From my discussion early, discussion with these guys, definitely November has been better than October and been better than September. We are just into December right now, so kind of early stage.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay, well, I guess it's moving in the right direction. Okay, thanks Chantal.

And one last question if I can come to Matt, if that's possible on the financial side, I don't want to hug the call. But just, Matt, from your perspective, can you give us a breakdown of the $19 million in annual cost savings, how much is G&A versus cost of sales?

Matt Quinlan - *Dominion Diamond Corporation - CFO*

Good question, Tanya. Think of that split as approximately 75% cost of goods sold and 25% G&A.

That's I think the high-level way to model it. And in terms of when those come online I think in our disclosure we said we'd be, those would commence middle of next year and they ramp up pretty quickly but there are some one-time costs associated with them, as well.

Tanya Jakusconek - *Scotiabank - Analyst*

Middle of next calendar year?

Matt Quinlan - *Dominion Diamond Corporation - CFO*

Correct.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. Then what about, maybe this is a sensitive issue, but one-time costs to achieve these savings?

Matt Quinlan - *Dominion Diamond Corporation - CFO*

You're right, it is sensitive. I think the way to look at it is the net result in our fiscal 2018 year will be a wash i.e., the savings will be offset by the one-time costs and then you will get 100% benefit thereafter. I think that's the best way to look at it.

Tanya Jakusconek - *Scotiabank - Analyst*

Okay. And then moving on to just the free cash flow, clearly we are trying to understand your partner on the buffer zone, I guess they have until year-end to see if they are going to exercise their, if they are going to participate, sorry, in the capital spend. And what if they don't't?

How do we look at Jay in terms of funding it and also returning to positive free cash flow given this weaker India demand? When do you see yourself positive free cash flow, number one? And, two, what are our options on the development if our partner does not participate?

Brendan Bell - *Dominion Diamond Corporation - CEO*

It's Brendan here. I will let Matt talk about free cash flow.

But, in all of our discussions with Archon, with Stu Blusson he is very excited about this project. As you can imagine as one of the co-discovers of the Ekati Mine he's keen to stay involved.

We expect he's going to do everything he can to stay involved. So despite that, obviously, we have to do some contingency planning. We are confident that we can fund the 100% of the Jay development if that's what comes to pass.

Not expecting that, but have to be prepared. Matt, do you want to talk about free cash flow?

Matt Quinlan - *Dominion Diamond Corporation - CFO*

Yes, I'm not proposing to, obviously, give specific guidance on free cash flow. I think I'd point you just to the now that we are into Misery Main ore I think the way I characterized it in the Investor Days our cash flows will accelerate.

We are also have got the development pipeline that Elliot is focused on that will be running off. So certainly in terms of our internal planning we are prepared if Stu chooses not to participate in terms of our internal planning to be able to fund 100% of Jay ourselves. Certainly Elliot's advancing some analysis in terms of the efficiency costs of Jay.

Brendan Bell - *Dominion Diamond Corporation - CEO*

I think that's a very good point, Tanya. Of course, we continue with our optimization efforts at Jay. We are not standing pat in that respect, so I think there's some very good work going on there. I know Elliot's team is working very hard.

Tanya Jakusconek - *Scotiabank - Analyst*

And maybe not to push you back, Matt, but and let's assume that Archon participates so we don't have to put in 100% of the capital, when do you and with this weaker market in India, when do you see yourself going positive free cash flow?

Matt Quinlan - *Dominion Diamond Corporation - CFO*

I think we are positive cash flow next year.

Tanya Jakusconek - *Scotiabank - Analyst*

Next year? Okay, thank you.

Operator

I am showing no further questions at this time. I'd like to turn the call back to Mr. Bell for closing remarks.

Brendan Bell - *Dominion Diamond Corporation - CEO*

Okay, well, look I'd like to thank everybody for joining us on this Q3 call and next time we get together I suppose it will be the new year. So as we sign off here we should wish you all a Merry Christmas and hope that you have a very happy and safe holiday with your families and we look forward to seeing you in 2017. Thanks for joining us this morning.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a wonderful day.
