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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Dominion Diamond Corporation's Fiscal 2017 Fourth Quarter and Year-end Earnings Results Conference call. My name is Karen, and I'll be your operator for today's call. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the call over to Jackie Allison, Vice President, Investor Relations. Please go ahead.

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

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

On the call today is Jim Gowans, Chairman of the Board; Matt Quinlan, Chief Financial Officer; Chantal Lavoie, Chief Operating Officer; Jim Pounds, Executive Vice President, Diamonds; and Elliot Holland, Vice President, Projects, who will all be available to answer questions after the presentation.

Please note that we have a set amount of time for questions and so if you are in the queue and don't get your questions answered, please reach out to me directly after the call.

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'll hand the call over to Jim Gowans. Jim?

James K. Gowans - *Dominion Diamond Corporation - Chairman of the Board*

(technical difficulty)

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

Jim, are you on mute?

Operator

This line is still connected.

James K. Gowans - *Dominion Diamond Corporation - Chairman of the Board*

(technical difficulty)

performance. We would also take the opportunity today to provide you with a broader corporate update. We are working on many fronts to identify new value accretive opportunities to optimize our operations and to the benefit from -- and benefit from significant exploration potential

(technical difficulty)

I will be providing some high-level comments and cover the key highlights of the quarter before passing the call to our senior management team to discuss in greater detail.

We continue to execute on our long-term strategy of increasing net asset value per share. Our focus remains squarely on optimizing our existing operations, while advancing multiple near-term and longer-term development projects at the Ekati and Diavik mines. Our robust

(technical difficulty)

in the underexplored Lac de Gras region. With 150 known kimberlites on the Ekati property and the work underway to prioritize targets, our advanced exploration program has the potential to drive significant value growth in the region that we know well. With the infrastructure that's already in place at Ekati and Diavik, the cost of developing new projects near Lac de Gras is significantly lower than the cost of greenfield development.

Looking now at our fourth quarter results, we had record carat production at Ekati and continued solid performance at Diavik. A number of efficiency improvements and cost reduction initiatives have been implemented successfully at both mines, as Chantal will cover in more detail. At the end of March, we filed an updated technical report for Diavik which demonstrated improved economics and supported an extension of the mine life to 2025.

As mentioned, we continue to make good progress at our development projects, and as Elliot will highlight, the Sable project at Ekati is currently below budget and well ahead of schedule, which bodes well for potential capital savings at our other large development projects.

In the diamond market, normal trading activity was disrupted by the demonetization of the Indian Rupee last November, but a recovery is underway, and Jim Pounds will expand on recent developments.

Our financial results are benefiting from the recent and much anticipated shift to the high value ore blend at Ekati. The improvement was delayed by the process plant fire at Ekati last June, but is now coming through as anticipated. As Matt will discuss, we expect this momentum to continue, as reflected in our strong fiscal '18 guidance. We are also providing a new 3-year outlook, which forecast continued robust sales and Adjusted EBITDA through fiscal 2020.

We are very pleased with momentum across our business.

On March 19, we announced that we had received an unsolicited expression of interest from The Washington Corporations. We worked to engage them on a constructive basis and took their approach very seriously, but they refused to enter into standard terms of engagement. To date, no formal offer has been made by The Washington Corporations.

The board subsequently decided it is in the best interest of the company and its shareholders to form a Special Committee to explore, review and evaluate potential strategic alternatives focused on maximizing shareholder value.

The Special Committee is working with management and its advisors to consider alternatives which may include the sale of company, a continuation of this current strategic plan, a change to the current strategic plan, or other strategic transactions. The board remains open and engaging with interested parties, including The Washington Corporations, on customary terms.

The strategic review process is ongoing, and no timetable has been set.

With that, I will turn the call over to Chantal.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Thank you, Jim, and good morning, everyone.

During the fourth quarter, our mining operation performed extremely well. At Ekati, the high-value Misery Main open pit and Koala underground operation had strong performance, and waste stripping continued at the Pigeon and Lynx open pits. During the fourth quarter, there were 3 lost time injuries for a frequency rate per 200,000 hours' work of 0.22 compared to no lost time injuries in the fourth quarter last year.

Processing volume at Ekati increased significantly following the restart of the process plant, and a record 2.3 million carats were recovered. This was a 93% increase from the fourth quarter last year due to the processing of a large proportion of high-grade ore from the Misery pipe. We continue to prioritize high-value ore from the Misery Main open pit and Koala underground for processing in the first quarter. The proportion of ore from Pigeon and Lynx pipes is expected to increase, starting in the second quarter.

Commissioning of the Fine DMS media separation plant or what we call the DMS, at Ekati, was completed on budget and on schedule in the fourth quarter. This plant, which increases the recovered value per tonne through the recovery of diamonds smaller than 1.2 millimeters is ramping up to full production and is expected to be fully operational by the end of April. The impact of the Fine DMS plant on the recovered rate and the associated average price per carat has been reflected in our most recent Ekati technical report and in our guidance. The plant is designed to operate at 1,800 tonnes per day and has already achieved an operating rate of over 1,000 tonnes a day. Once the plant has operated continuously at full capacity, we will be in a position to assess its performance relative to the design efficiency of 75%.

We're well on our way to completing a pre-feasibility study for the Misery Deep project at Ekati, with a target of completion by July. This study contemplates the potential development of additional underground resources at the Misery pipe after mining of the current open pit has been completed. Early indication shows the potential to recover up to 2 million tonnes of high value material, containing approximately 5 million carats. Assuming a positive study, this would have the potential to enhance our production profile at Ekati beyond fiscal 2020.

Finally at Ekati, I'm happy to report that the union ratified a new collective agreement, which expires in May 2019.

Turning now to Diavik. In the fourth quarter, Diavik processed 540,000 tonnes of ore and recovered 1.6 million carats on a 100% basis, an increase of 16% and 10% respectively over the same quarter of the prior year. Higher processing volume reflect that the planned maintenance shutdown impacting process plant availability the prior year, whereas increase in carats recovered was due to the higher processing volume, offset by lower grade.

We have recently filed an updated technical report for the Diavik mine, demonstrating improved economics and supporting an extension of the mine life from 2023 to 2025. Based on the assumptions in the technical report, the net present value is approximately CAD 2.6 billion on a 100%

basis. From 2017 until the end of the mine life, we expect to recover 46 million carats on a 100% basis, an increase of 6 million carats compared to the 2015 technical report.

Total revenue and total operating cash flow for 2017 until the end of the mine life at Diavik are also higher relative to the 2015 technical report, while the total operating costs and capital expenditures remain consistent with previous estimates. We have been able to contain operating costs by implementing the sustainable efficiency improvements. While the overall budget for A-21 has not changed, some of the capital expenditures required for this project were accelerated into calendar year 2015 and 2016 to derisk the project execution plan, which translates into lower spending in 2017 and 2018. This is offset by the additional underground development required over the remaining mine life to extract incremental high value ore at A-154 North. We're pleased with the mine life extension at Diavik, which is consistent with our goal of increasing net asset value per share.

At the end of last month, we sent the last truck down the winter road, bringing another successful winter road season to an end. Altogether, the road was operational for 56 days, bringing more than 1,600 loads at Ekati and 3,500 loads to Diavik.

Let me now turn to a summary of our planned exploration activities. As Jim mentioned, we're very excited about the exploration potential in the Lac de Gras region. We have a large land package there, and although the Ekati and Diavik mines have been operating for over a decade, this is still a relatively new and highly prospective mining district. There's been no exploration at Ekati since 2006, and of the known 150 kimberlites on the Ekati property, about 110 have not been extensively tested. Our exploration program for fiscal 2018 includes prioritization of kimberlite pipes and planning for a bulk sampling program in fiscal 2019. We plan to drill up to 6 identified priority targets in the Core and Buffer Zones. At Diavik, drilling of 3 priority targets is planned in 2017.

Our exploration budget for this fiscal year is about CAD 11 million. The bulk of it is focused on near mine targets. We believe these present the best opportunities to drive long-term values, as discoveries made near existing operations allow us to leverage our significant infrastructure advantage. We look forward to providing further detail on our exploration plans at our exploration workshop, which is scheduled for May 23rd in Toronto, and we will be accessible via webcast on our website.

To summarize the performance of our operations, we continue to deliver against our mine plan at both Ekati and Diavik, and have achieved a number of efficiencies driving costs sustainably lower and improving performance in both our operations. We look forward to sharing the results of the Misery Deep pre-feasibility study in July. Finally, we look forward to providing an update on our extensive portfolio of exploration targets in May.

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. This morning I will be discussing the Sable, Jay and Fox Deep projects at Ekati and the A-21 project at Diavik. At Sable, we had great winter construction season. During November, we completed most of the rockfill shell for the Two Rock Filter Dike, which had previously been scheduled for calendar 2017, and we assembled a frozen core plant at the site. In December, we began construction of a frozen core dam at the output of Two Rock Lake, and this was fully completed on April 2nd. Starting in May, we will begin mechanical and electrical works on the site infrastructure and will return to finish open waterworks on the filter dike. Given where we are in the construction schedule and the mine plan, we're planning to accelerate the start of pre-stripping at Sable into July of this year, which is 3 quarters earlier than the schedule built into the pre-feasibility study for Sable in the September 2016 technical report for Ekati.

Cost performance at Sable continues to be well below our budget expectations. Our prefeasibility estimate for initial development capital, which, as a reminder, excluded overhead cost allocation to pre-stripping, was $142 million. This is also the project budget built into our technical report issued last September. Our estimate to complete, as of the end of fiscal 2017, was reduced to $126 million. This is the basis for our guidance. Most of the remaining spend in fiscal 2018 and 2019, again, excluding overhead and pre-stripping, is comprised of mine equipment purchases, and we see opportunities to save an additional $20 million through more efficient sharing of equipment between pits as well as ongoing commercial negotiations with suppliers. Our proven success in reducing the initial development capital spend at Sable positions us well to deliver cost efficiencies as we prepare to embark on the more sizable Jay project.

At Jay, the primary focus recently has been on completing the water license process. Public hearings on the project were held last December in Yellowknife, followed by issuance of a draft water license in January and closing arguments from all parties in March. The file is now with the Water Board for a recommendation, which we expect towards the end of May. This recommendation would then be forwarded to the Minister of Environment, the Honorable Robert C. McLeod, for a decision on the water license and a final land-use permit expected this summer.

Construction activities at Jay have been minimal through the winter, but we did continue to stockpile clean granite from links at the crusher pad, which will be our construction material for road construction. In May, we plan to start crushing road base material, and shortly thereafter, we will begin road construction to the project site.

Turning to Fox Deep, we announced the results of our 2016 drilling campaign, which has increased the indicated mineral resource by 10.4 million tonnes to 45.6 million tonnes and by 4.9 million carats to 16.5 million carats. It also demonstrated an increase in the average grade in the indicated mineral resource from 0.33 to 0.36 carats per tonne. The goals of the 2016 drill campaign were to confirm resource continuity, and to demonstrate that the grade at Fox increased with depth, which we have done. Our conceptual studies on Fox Deep point to strong potential for a large underground cave operation which, given the size of the ore body, could support 10 years or more of operations at Ekati's current processing capacity. Based on these encouraging results, we have initiated a pre-feasibility study on Fox Deep, which we expect to complete late this fiscal year.

Finally, at Diavik, we are in the final year of dike construction on the A-21 project. The project team successfully mobilized all the required supplies to complete the dike and the winter road, and have substantially advanced the curtain grouting required for the cutoff wall. We continue to expect the start of pre-stripping at A-21 in early calendar 2018.

In summary, our success in reducing the development capital forecast to stable against budget positions us well to deliver future savings at our large upcoming development project.

The acceleration of development at the Sable project, the progress we have made on defining an attractive mineral resource at Fox Deep, as well as the near-term potential for an underground extension at Misery Deep, gives us a robust project pipeline at Ekati.

Thank you, and I'll now pass the call on to Matt.

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

Thank you, Elliot, and good morning, ladies and gentlemen. In the fourth quarter, we reported consolidated net income attributable to shareholders at $5.6 million or $0.07 per share. As previously announced in the fourth quarter, we sold 1.4 million carats at an average price of $95 per carat for a total sales of $130 million.

Revenue in the quarter declined by some $48 million from the prior year primarily as a result of the effects of the process plant fire at Ekati, that delayed the availability of Misery Main goods for sale until the third and final sale of the fiscal quarter, and also the effect of demonetization in India.

In the fourth quarter, we recovered a total of 2.9 million carats in Ekati and Diavik, well ahead of the 1.4 million carats sold. This had an important effect on our inventory levels at year-end and free cash flow for the quarter. More on this later.

In contrast to the year-over-year decline in revenue, gross margin of $22.2 million or 17%, increased substantially from the same period in the prior year, where a gross margin of negative $13.7 million or negative 8% was generated. The increase in gross margin reflects the sale of higher margin goods led by products in the high-value Misery Main and Koala underground ore bodies, which became widely available for sale in the last sale of the year, together with the effect of a $19.8 million inventory impairment in the fourth quarter of the prior year.

Adjusted EBITDA in the quarter increased to $63 million from $49 million in the comparable quarter of the prior year for the same underlying reasons. The Adjusted EBITDA margin for the quarter was 48% as compared to 28% in the same period prior year.

Items of note in the quarter include $1.7 million of restructuring charges or $0.02 per -- pretax per share related to the move of the company's head office from Yellowknife to Calgary. We remain on track to achieve the annual cost savings of CAD 19 million from this initiative, and as noted in our MD&A, there will be further onetime restructuring charges in fiscal 2018 as a result of this initiative.

Foreign exchange fluctuations during the quarter resulted in a foreign exchange loss of $5.3 million or $0.06 per share, offset by an effect of reducing income tax expense by $7.1 million or $0.09 per share.

Free cash flow in the quarter was negative $19.6 million, which is made up of cash flow from operations at $47.6 million and $67.2 million of capital expenditures. Capital expenditures comprised of $50.4 million of sustaining capital, including $27 million of production stripping, and development and exploration capital expenditures of $16.7 million.

Notably, the cash flow from operations in the quarter is after an increase in diamond inventory and supplies of approximately $46 million. The increase is due primarily to an increase in the rough diamond inventory after the record carat production at Ekati in the fourth quarter following the restart of the process plant in September 2016, and the effects of the Indian demonetization on our sales in the quarter. These were partially offset by a reduction in supplies inventory prior to the winter road shipments that commenced in February. Jim will speak further to rough diamond inventory levels at quarter end as part of his outlook.

Turning to the balance sheet, we finished the quarter with strong liquidity, with an unrestricted cash balance of $136 million and no amounts outstanding under our $210 million revolving credit facility. Debt levels at $10.6 million remain minimal.

Our philosophy around the balance sheet is simple. The objective is two-fold. Firstly, liquidity. Protecting value should unforeseen market downturns occur, and secondly, and equally important, increasing shareholder value. Together, with reinvestment of operating cash flows, funding growth that increases net asset value per share.

The strength of our balance sheet supports these objectives while providing us with the flexibility to advance our development projects.

In the fourth quarter, we continued to repurchase shares under the previously announced share repurchase plan. From the commencement of the program on an automatic basis in the summer of 2016 to the end of the fiscal year, we invested approximately CAD 41 million for the repurchase and cancellation of approximately 3.4 million shares. Share repurchases under this program are continuing.

Combined with our dividends, we returned approximately $65 million to shareholders in fiscal 2017.

Lastly, I want to take a moment to talk about our fiscal 2018 guidance and 3-year business outlook. A few weeks ago, we released our fiscal 2018 guidance, showing significant expected Adjusted EBITDA generation, supported by strong sales growth at Ekati and Diavik, approaching $1 billion on a consolidated basis. We continue to reinvest in the growth of our business as well, with total capital expenditures of approximately $300 million in the forthcoming year.

The 3-year outlook shows the strength of our business, as Diavik is expected to continue to deliver on its improved mine plan, while Ekati evolves into the next phase of its mine plan as Sable comes into production. Total expected capital expenditure shows a declining trend through to fiscal 2020 as the development projects underway come into production while construction of Jay commences. Overall, with the growing Adjusted EBITDA profile and declining capital expenditures, we look forward to strong cash generation in the next 3 years and are very pleased with the financial predictions from our mine plans.

Before I wrap up my comments, let me give you a few clarifying points with respect to our guidance.

First, let's look at production stripping. Everyone should be aware that in the technical reports, stripping is treated as an operating expense, whereas in our guidance, we break out capitalized stripping from operating expenses in the short term in accordance with accounting rules. In our fiscal 2018 guidance, we include $115 million of capitalized production stripping in the planned sustaining capital for Ekati. As this amount is no longer included in operating costs, there's no impact to cash flow.

Second, I would like to note that the depreciation and amortization are expected to remain elevated, as production takes place from the open pits that have been stripped since we acquired Ekati. As an example, our 2018 guidance reflects the depreciation of the Misery Main pre-stripping asset as the related goods are processed and sold.

In summary, we ended the quarter with a strong balance sheet with $346 million of available liquidity and minimal debt to support our capital allocation strategy, including the return of capital for shareholders and the reinvestment in our significant pipeline of development and exploration projects. We saw the first impact of the high margin material from Ekati on our earnings, albeit only from the last sale in the fiscal year, with more to come in fiscal 2018. And lastly, we reduced -- we've released our 3-year outlook showing a positive trend in revenue and Adjusted EBITDA against a declining capital expenditure profile.

Now I will pass the call on to Jim Pounds to provide some color on the diamond market.

James R. W. Pounds - *Dominion Diamond Corporation - EVP*

Thank you, Matt, and good morning, everyone.

As was already apparent in December, when we hosted our earnings call, the rough diamond market continues to diverge between strong and stable demands for larger, better quality goods and continued downward pressure on demand for smaller and relatively cheaper rough diamonds.

Overall, rough diamond prices have decreased by an average of 7% from the end of the third quarter. But let's look at each market sector -- segment individually.

Prices for larger, better quality goods have held up and are flat over the period. This segment has been supported by decreased stocks in both rough and polished in this category, throughout the pipeline. Prices for smaller, cheaper goods, however, have decreased by up to 25% over this period as a result of the temporary shock from the demonetization in India that was announced in November. This initiative brought the manufacturing sector in India that specializes in these goods to a standstill, and therefore nullified the demand for the cheaper rough. It's important to note that we continue to expect this impact of the demonetization initiative to be temporary and for demand from manufacturers to return to normal by the end of our second fiscal quarter this year.

Our sales results in the fourth quarter reflected the impact of the demonetization shock to the rough diamond demand, resulting in a sales mix favoring higher than average price goods as well a higher than normal balance of available-for-sale inventory at year-end. So, our average price in the quarter was skewed by lower value goods.

Turning now to the retail market. The holiday season in the U.S. was somewhat lackluster, broadly flat from the prior year, also falling below expectations. China, however, has started the year with a positive momentum after a strong Lunar New Year season, and this has led to restocking by the retailers there, particularly for goods in the commercial ranges, as consumer preferences in China continue to develop. In India, as expected, the demonetization initiative had a temporary impact on the jewelry market. But this is now returning to more normal levels. Currently, the market is strongest in price points below the INR 200,000 threshold, which is equivalent to about USD 3,000, although there are signs that there is pent-up demand building for higher priced items as well.

Generally, we continue to see a transition in the global market, but particularly in the emerging markets, to more commercial ranges of polished product, and this is particularly apparent when looking at the index of rough diamond content as a percentage of total jewelry price. This has been falling from a high of 33% in 2011 to 27% today, as global demand has been moving to a relatively cheaper and smaller stones. This industry trend is particularly favorable to our production profile as we shift to lower average price ore bodies at Ekati, like Misery Main, and in the future, Jay.

We continue to be encouraged by the strong response of retail consumers to our CanadaMark product. Consumers continue to favor the environmental and social stewardship that a Canadian diamond represents. We're also continuing to develop other strategic initiatives for marketing our product by working with clients to move further downstream and capture the premium associated with our Canadian production and to protect and grow demand for all ranges of our production. We expect to provide updates on these strategic initiatives over the next several months as we continue to take them through our pilot projects.

Finally, you'll have seen our recent guidance -- as you will have seen in our recent guidance, our strong sales expectations for the coming year, which is forecasted to be between $875 million and $975 million, and this is buoyed by the forecast of a strong production at both Ekati and Diavik. And as previously mentioned, the expected recovery in the market for lower-priced goods.

This is expected to result in a drawdown of our inventory balance by the end of the fiscal year.

So in summary, the demonetization initiative in India has weighed on our results, but we continue to expect demand for smaller, cheaper goods to normalize by the end of the second quarter. The retail market in the U.S. is stable, but there are signs of growth in China, with a noticeable shift there toward product in the commercial ranges.

This trend uniquely benefits our product mix, as the mine plan in Ekati shifts to lower average value carats from ore bodies such as Misery Main and Jay.

And finally, we continue to maximize the value of our product by leveraging our strategic position as the largest Canadian diamond miner through our CanadaMark hallmark as well as the development of other marketing initiatives to help protect and grow demand for our rough product.

I'll now pass the call back to Jim Gowans for some final remarks on the results.

James K. Gowans - *Dominion Diamond Corporation - Chairman of the Board*

Thanks, Jim. Before turning the call over to your questions, I would like to summarize the key points that you've heard from the management team on this morning's call.

We continue to drive efficiencies and optimize our operations. This is highlighted in the improved mine plan for Diavik incorporated into a recent -- into the recently released technical report as well as our very strong guidance for fiscal '18 and our 3-year look ahead or outlook, showing strong growth in revenue and Adjusted EBITDA and a declining capital expenditure forecast.

We have provided an update on our many exciting development projects and our extensive exploration opportunities. Supported by our strong balance sheet, we are well positioned to continue reinvesting in the business to renew the asset base and to drive increases in our net asset value per share. We look forward to providing a further update in our exploration program in May.

Finally, we continue to expect the rough diamond market to recover from the impact of the demonetization in India by the middle of the year and get back to the long-term trend of growth, underpinned by the growing gap between the supply and demand of rough product.

In summary, we are well-positioned to continue executing against our long-term value creation strategy for the benefit of all shareholders.

Thank you for your time this morning listening to our earnings call. I would now like to open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Edward Sterck from BMO.

Edward Christopher Sterck - *BMO Capital Markets Equity Research - Analyst*

I've got 3 questions. Firstly, just starting with inventories and the sort of inventory management strategy, and just doing a little bit of very basic maths here. If I add up to the production from Ekati, since Dominion took possession of it, and then subtract sales, I end up with an inventory number of around 4 million carats, actually a little bit above that. I'm just trying to match that up with -- probably some of that would be work in progress inventory, but what's the sort of natural level of inventory that you think is appropriate, and can some of that be monetized? So that's my first question. And then, my second question is on Indian demonetization. Some of your peer companies tell me, or have been telling the market actually, that they are seeing normalization in that situation already, in fact a couple of months ago. Obviously, there's plenty of other companies saying that it's still tricky. Just wanted a bit more color on your experience of it, and why from a Dominion perspective, it's still a little bit challenging. And then my final question, and this may not be one that you can answer, but I'm going to ask it anyway. In terms of the strategic review, can you give us an indication of whether there's more than one interested party taking part in this?

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

It's Matthew Quinlan, here. And Jim will take the first 2 questions, so Jim Pounds. And then, I'll let Jim Gowans answer the last. Jim?

James R. W. Pounds - *Dominion Diamond Corporation - EVP*

Yes. I mean in terms of current levels of our inventories, we also include the stock that has already been sorted. That is, we are preparing for sale. So we've had some very good production figures in the fourth quarter. So when we went into the end of 31st, the end of January 2017, that was reflected in our inventory level. So although it'll just be -- they were higher in carat terms than they have been probably ever, we were comfortable with this, and have already seen quite a lot of sell-down of that inventory, already apparent in the first 2 sales.

On demonetization, maybe we're treading a little more cautiously than some of our peers. We definitely see and very much encouraged by the quick return of retail demand in India, and in China, and pretty steady as it goes in the U.S. And this really encourages me to see that, as the -- a lot of our stock is in the cheaper range, and a lot of the demand that we see in India is in goods that really relate directly to this cheaper range, that we are very encouraged that the offtake of this stock will happen quite considerably in the next few sales. So in terms of that, yes, maybe we're a little more cautious, but we are definitely seeing what we have predicted as the return to normalization at the end of Q2.

Edward Christopher Sterck - *BMO Capital Markets Equity Research - Analyst*

That's very encouraging, particularly on the retail side, given India is a reasonable part of the market. Just going back to the inventory question. I mean, it's something that's been building up for quite a few years looking at it, and I know that period -- seasonally in the fourth quarter, you're always carrying a bit more into the end of the year. What do you think is the sort of right level of inventory? Can you -- is there an element of this that could be monetized at all? Or is it pretty much running, a work in progress, sort of normal levels?

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

I can speak perhaps or provide some color on the dollar amounts on the balance sheet, and then Jim maybe on carats given the -- Jim Pounds on the carat front. If you look at our balance sheet, Ed, if you add up the stockpiled ore, work in progress and finished goods, over the last couple of years on average, if you total those all up, we've been sitting, on average, at about just over USD 210 million on our balance sheet at that cost. At the end of the last quarter, the one we're releasing today, we had $270 million. So that gives you an idea in terms of dollar amounts. We obviously have quite a large stock -- (inaudible) stockpile. That -- that was -- that would, I think, constitute approximately half of that amount, that delta, and the balance would be work in progress and finished goods. I think our comments give you some color, but that is due to the effect of Indian demonetization and also the seasonality and, frankly, just a change in ore mix. When it comes to carats, obviously, Jim Pounds may have some additional carats -- color. Over to you, Jim.

Edward Christopher Sterck - *BMO Capital Markets Equity Research - Analyst*

And just so -- just 1 question. Is that all on cost of goods sold? Or is there any recorded at net realizable value?

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

That would be either be the low effect on an accounting basis sense. So that would either be on the -- in either cost or the lower of NRV. So amounts I just quoted to you would be net of any write-down historically you've taken.

James R. W. Pounds - *Dominion Diamond Corporation - EVP*

In terms of holding inventory for sale, particularly the cheaper goods, which is so seasonal, Ed, really, one would always feel comfortable with the, either sort of the current intake, the fully sorted intake, plus a certain amount of inventory to be able to derive and maximize the client demand when it arrives during the busy times. So that leads to -- that sort of level of inventory, as you rightly point out, has a certain amount of seasonality to it. So as a rule of thumb, somewhere between 1 to 1.5 sales is probably comfortable level of inventory.

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

And then I think, you have a comment for Jim Gowans on the strategic review process of...

James K. Gowans - *Dominion Diamond Corporation - Chairman of the Board*

Ed...

Edward Christopher Sterck - *BMO Capital Markets Equity Research - Analyst*

Just that there's more than one party. That's really what I'm interested in.

James K. Gowans - *Dominion Diamond Corporation - Chairman of the Board*

We have kicked off the strategic review process. We're pleased with progress, but we will not comment on that or any specifics at the present time.

Operator

(Operator Instructions) Our next question comes from the line of Richard Hatch from RBC Capital Markets.

Richard Hatch - *RBC Capital Markets, LLC, Research Division - Associate*

Just a couple of questions. Firstly, on your assumptions in your '18 guidance. And can you give some color on your inventory sold assumptions? I'm sure there's a range, but are you able to get a rough guidance to the actual amount of carats sold? And also -- and perhaps just a bit more of a drill down. Are you able to just clarify what your fiscal '18 assumption is for rough diamond price movements, please?

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

Sure. So I'll deal with the carats sold. You will note that -- it's Matthew Quinlan here. So if one were to take the midpoint of the range for sales and also the price per carat -- average price per carat sold, I think you get to a, you know, you can back into a number there. I would caution, just given the mix of our goods and also the special tenders that go on through the year on a quarter-to-quarter basis, that number isn't going to be stable in terms of the cost per carats sold -- pardon me, the price per carat sold, and hence the number of carats. But I think you can see that we are drawing down inventories over the year, if you interpolate there, those 2 numbers. I think what we were guiding towards in our commentary, back in mid-March, was on an average price per carat sold basis. The first quarter or first 2 sales of the year would be below -- or at the low end of that range, and that would reverse later in the year. That's -- a lot of that is due to mix, frankly, what's in inventory right now. In terms of the pricing assumptions, the way I would characterize this fiscal 2018 guidance is a return to normal trading activity, Richard, by the middle of the year, which then, in the latter half of the year, gradually translates into a reversal in prices. So that at the -- our 2018 guidance I think has quite, in our view, a conservative price outlook, but one that we're very comfortable with based on the current trading conditions and like my comments there. And then, FY '19 and '20, as you see in our commentary on the press release, the higher end of that range is predicated on our current outlook, which is a return to mid-2016 pricing by early calendar 2018 or fiscal '19. And the lower end of that revenue range, and hence EBITDA is more -- a much more muted increase in prices from current levels.

Richard Hatch - *RBC Capital Markets, LLC, Research Division - Associate*

Right. Right, just so I can get it in my mind. So perhaps if the rough market -- and correct me if I'm wrong, if a rough market kind of drifted off perhaps a little bit into the end of December, and you pointed out that you've had a 7% reduction in your prices Q-on-Q, so I mean, are you expecting to see prices rebound by between 7% and 10% this fiscal year? Or am I out?

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

Yes, look back. That would be consistent with Jim's comments, but more -- we guide you to more of the second half of that, that year-over-year. I think -- I'll ask Jim to comment further, but in our experience, you need trading liquidity in the market first, and then come prices.

James R. W. Pounds - *Dominion Diamond Corporation - EVP*

Absolutely. I think here we had -- in the price inventory, cheaper goods definitely impacted, and that market is getting back to normal. But as I said at the [AFG], though, I'm really encouraged by some of the growth in retail demand, that where the bounce-back in India in the cheaper goods has been really significant. And I'm probably underplaying some of the growth in China. At the March Hong Kong Show, there was definite -- a definite feeling of -- a definite bounce in the step of the diamantaires there when they were dealing with the Chinese trade.

Richard Hatch - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. Hopefully, I see -- hopefully, that is the market reaction and we see better prices. Just to clarify a bit more, I mean Misery prices, should we assume that they sit -- I mean, are you receiving about $55 at the moment, or should we see a slight improvement in Misery prices? Was the -- is that kind of inconsistent with your expectations for market improvement?

James R. W. Pounds - *Dominion Diamond Corporation - EVP*

I mean, it fits within the range, very much within the range. Probably a bit higher than your estimates, one would hope. And I think one of the things with the Misery product, and something that we witnessed just recently, is the intense demand for these wonderful fancy yellows that come out of it, and the very, very encouraging prices we've been seeing for that part of the product, which brings me great hope for the -- very much the higher side of that average price.

Richard Hatch - *RBC Capital Markets, LLC, Research Division - Associate*

Great. And I'm sorry, I know I'm dominating. I've just got 2 more of which, firstly, is, you've had a tender since that point in March. You've given February tender prices very kindly. Are you able to give a rough steer on price movement in the March versus February tender?

James R. W. Pounds - *Dominion Diamond Corporation - EVP*

Yes. We you know -- we're still actually in the sales process at the moment. because of tender and the regular sales, and certainly we would look to give guidance at the appropriate time on those pricing movements.

Richard Hatch - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. And then my last question is, are you comfortable that you can place all of these goods into the market? I mean, you're putting -- you're bringing -- you're increasing your production quite materially, Petra doing the same, Mountain Province, Stornoway Alrosa all pushing up production, [Avastin] as well. What should be the -- do you think the market's there to place all this rough?

James R. W. Pounds - *Dominion Diamond Corporation - EVP*

Yes. And just going back to -- you mentioned the tenders. One of the most encouraging things I find, Richard, about the tenders is, is our group of clients are active at these tenders, even though they are regular clients for regular sales. And the fit of our clients to our product, I find that very encouraging. I think we've got the best people, the best clients who can maximize the value -- the great value and really maximize not only the value of the goods but the Canadian product as well. I think our fit is quite -- is more than encouraging. I'm very, very comfortable with it.

Operator

And our next question comes from the line of Tanya Jakusconek from Scotia Capital.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

I have a few questions, some technical, and then, I guess, some more general. So I'm going to start with the technical questions, if I could, and maybe that's for Chantal. Maybe just on Fox Deep, the increase in tonnage, was that at depth that you encountered that with the increasing grade?

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

Yes, Tanya, this is Elliot here. The increase in tonnage is the result of extending the proven or the indicated resource at depth.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Okay. And any idea that you can give me on how far we've taken it down? Like how many meters did we extend down, or...

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

I think we're talking about another 200 meters, roughly speaking.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

And Tanya, just to add on to Elliot's point. Again, that's something when we organize our explor... we talk about exploration insight workshop on May. It's something that we also be able to provide a bit of an update as to exactly where that increase in tonnage and grade took place.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

And I know that Elliot gave us some conceptual level, that's going to be bulk mining. But can we somehow get an idea in terms of, should the economics work, the fitting into the mine sequencing? Would this be something that would be looked ahead of Jay?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

I think there's, obviously, multiple options. At the moment, we're thinking about Fox Deep as an extension on to the existing mine plan.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Okay. So extension to coming in after Jay?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Exactly.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Okay. And then, maybe, Chantal, on the operating costs at both Diavik and Ekati. Can you talk to us a little bit about some of the savings that you're seeing there, other than the head office move? Like what else has changed from a mining standpoint? And the savings that we're seeing, is that just going to offset inflation, so net-net we're going to be flat going out? Maybe just a little color on that.

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Okay. For sure. First of all, let's start with Diavik. Definitely there are key savings in Diavik on the OpEx or on forefront. The first one is labor, okay, which is about 45% of the total cost reduction, and that's driven, essentially, by reduction of the permanent employees, the DDMI employee as well as a reduction of headcount on the contractors. So that is about 45%. This is essentially in place, and all the guys have done that. Made the decision, have done the reduction. So it's in place right now. So I feel very comfortable about the assumption there. The second biggest aspect is fuel, and it's driven by 2 things. It's driven by -- the biggest one being a much lower fuel price in the most recent technical report versus the previous one in 2015. People see the oil price now versus what it was 2, 3 years ago, quite different. And the other component is a reduction in fuel consumption. And that's, again, when we talk about efficiencies, maximizing the use of the wind power system. Obviously, reduction in number of equipment. As we go into open pit, now that we've got a proper schedule optimizing it overall, so lower fuel cost and lower consumption. The third one is really around the consumables. Again, better understanding of the detailed schedule around A-21 mining. And then last but not least, as you reduce workforce, as you reduce consumable, there are savings on camp catering, flying less people at site and freight. So that's kind of the 4 areas that basically bills about 90% of the savings at Diavik. At Ekati, it's somewhat similar. Obviously, you've talked -- you made reference to the

Calgary move, the move from Yellowknife to Calgary. Obviously, as we move people in lower cost jurisdiction, there is some saving. But as well, if you remember, some of the big changes at Ekati as well, we're going from large fleet of smaller equipment to a smaller fleet of much larger equipment. So there's reduction on labor requirements. We've done, also, some rightsizing through the course of last year in terms of staffing and so on and so forth. So that's the first aspect of the cost-reduction at Ekati. The second one, again, very similar to Diavik, as we run bigger and fewer pieces of equipment, we've got cost efficiencies and there are lower fuel consumptions. We've also continued our efficiency reduction in terms of energy consumption. So these are the 2 big-ticket items. And again, when you reduce the number of people at site, there's indirect savings you receive with camp catering and flight. So that's, in a nutshell, kind of the savings that we've built in our guidance, in our technical report, and we feel very comfortable because these are based on actions that have already taken place.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

And all of these, Chantal, that you see, will net-net offset the inflation creep that generally happens year-over-year?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Essentially. And then, when Matt and I work together with the operation team and the finance desk, that's a goal that we set to ourself and to our team when we prepare budget is that, we know some costs are going to go up, okay. Let's make sure that we find efficiency to at least offset that.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Okay. So in terms of your guidance, that's sort of what you've baked in, that the savings offset year-over-year inflation creep?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Yes, yes.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Okay. And then, maybe just moving off the technical side, on to just some of the other housekeeping items. Just on Rio, can you remind us the change in control restriction in terms of any transaction? Is it at the asset level or the corporate level? And can they stop any deal should there be a deal put forth?

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

We have very strong relationship with Rio, a very good working relationship, you're right, it is. We have -- both parties have I guess strong rights at the asset level. The agreement remains private. But I would characterize the benefits of the joint venture agreement for both parties, frankly, at more the asset level then the corporate level.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

So if something's done at the corporate level, they should not be able to block it in, as you see it right now?

Matthew Quinlan - *Dominion Diamond Corporation - CFO*

No.

Tanya M. Jakusconek - *Scotiabank Global Banking and Markets, Research Division - Research Analyst*

Okay. And then, just maybe one for Jim Gowans, if I could. After the public release of all of the letters back and forth from Washington Corp. to Dominion and then, back and forth, has there been any more conversations or dealings with Washington Corp. after those published letters?

James K. Gowans - *Dominion Diamond Corporation - Chairman of the Board*

No. We've repeatedly offered to constructively engage with Washington Corp. on the customary terms. But to-date, we haven't been able to do that.

Operator

And I have a follow-up question from the line of Richard Hatch of RBC.

Richard Hatch - *RBC Capital Markets, LLC, Research Division - Associate*

I just wondered if you might just give any update on the dilution at Diavik, and how that's coming along? I noted in the technical report, it was still noted as something that you were assessing. So perhaps if you could just give an update there?

Chantal Lavoie - *Dominion Diamond Corporation - COO*

Richard, Chantal here. Yes, I think we're -- the thing with the new technical report, and that's an aspect that we're very comfortable with it, it now effects the dilution experience at Diavik over the course of 2016. And, again, without trying to get too technical, there's essentially 2 mining methods at Diavik, a sub-level retreat, and that's the mining method in the A-418 and 154 South, and then, there is the blast hole stoping with backfill in the 154 North. The dilution challenges have been mainly in 418 and 154 South. And that's what was reflected last year. We talked about it, and now the technical report actually take this experience into consideration. So much more realistic dilution assumptions around these 2 ore bodies. And, secondly, also, we've done a fair bit of work. Matt made reference of our relationship with Rio. Our technical team between Diavik and Ekati had a chance to exchange our experience. We've done stuff at Ekati that is slightly different. And what it boils down to is the Diavik team is basically putting in place the same type of dilution control and processes that we've successfully done at Ekati for many years. So I feel very comfortable now that the new technical report reflects a realistic dilution level in these 2 pipes, and also the processes and how they control dilution underground, really implementing things that we've been successful at, at Ekati.

Richard Hatch - *RBC Capital Markets, LLC, Research Division - Associate*

Okay. So you're comfortable with the guidance that you've published incorporates some reflection of this. Okay, fine.

Operator

And that concludes our question-and-answer session. I'd like to turn the conference back over to Jim Gowans for any closing comments.

James K. Gowans - *Dominion Diamond Corporation - Chairman of the Board*

Okay. Thanks, Karen. Thank you, all, for joining on the call. Just to note, any follow-up questions can be addressed through Jackie, and we look forward to talking to you again when we report the fiscal 2018 first quarter results. Thanks very much again for everybody attending.

Operator

Thank you. 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.