EQUITY RESEARCH

RBC Capital Markets

RBC Europe Limited
Des Kilalea (Analyst)
+44 20 7653 4538
des.kilalea@rbccm.com

Richard Hatch, ACA
(Analyst)
+44 20 7002 2111
richard.hatch@rbccm.com

January 26, 2015

RBC Diamond Digest

A more difficult market for 2015

After two strong years, helped by prices, diamond equities face a more challenging 2015 as rough prices come under pressure. This could last a good part of 2015 given liquidity shortages and high polished inventories; weaker currencies do provide a tailwind for producers. For the developers, the prospects are that the soft market will not have much impact given that the leading projects are now largely fully funded. We continue to view the diamond sector favourably in the medium term despite short-term challenges (see "Push and pull between diamantaires and miners on prices to continue in 2015", dated 9 December 2014).

Tough start to 2015: Whereas 2014 started strong and ended softer, this year looks like the reverse. Rough diamond prices in the first 2015 DTC Sight were down ~4% according to diamantaires; in the outside market even greater falls have been seen. This, we believe, reflects high polished inventories and falling prices, as well as scarce funding to finance purchases.

De Beers steps up to the plate: While some will say it is not enough, De Beers has recognised the difficulties in the market and allowed Sightholders to defer 25% of their Sights for two months, reduced prices and improved the mix in Boxes, Sightholders tell us. Diamantaires say further deferrals and reductions in rough prices are needed to help the market back into balance. Our view is that the first De Beers Sight in 2015 closed at around the $400m mark, well below the same Sight in 2014 (~$750m), suggesting that 2015 may not see the traditional strong H1. For Anglo, the implications could be that De Beers, the largest source of earnings in H1/14, may slip a bit in H1/15, though in our view it remains in a far better state than companies operating in the iron ore, copper and coal sectors in terms of product prices. Also, weaker currencies will likely be a positive.

Bank debt still a concern: The threat of tighter credit availability in cutting centres has been building for some years with leading banks such as ABN Amro making it clear that it would cut its exposure to all but quality clients. The lid finally came off in 2014 when Antwerp Diamond Bank indicated it would close its doors. This created urgency for diamond cutters to sell excess polished and contributed to weak prices. Solving the funding issues will take time and eventually lead to less money tied up in the diamond pipeline. Ultimately we believe this is a good thing but the process of reducing bank indebtedness by ~10%-20% could be uncomfortable for a few years.

Currency issues: Facing the prospect of softer rough diamond prices, producers may see some top line compression. But with currencies of most producing countries softer, margins will be supported. This has driven, for example, the RUB price of Alrosa to record highs. The converse is that weak currencies in jewellery buying countries, such as China, are not positive for retail sales.

Producers face tough year in good financial health: Leading producers such as Petra, Dominion, Lucara and Gem will face tough trading conditions in 2015. The positives are that, in most cases, weaker currencies should help control costs and balance sheets are in good shape; good enough for dividends in most cases, we believe.

For Required Non-U.S. Analyst and Conflicts Disclosures, see page 18.

2015 starts "not with a bang but a whimper"*

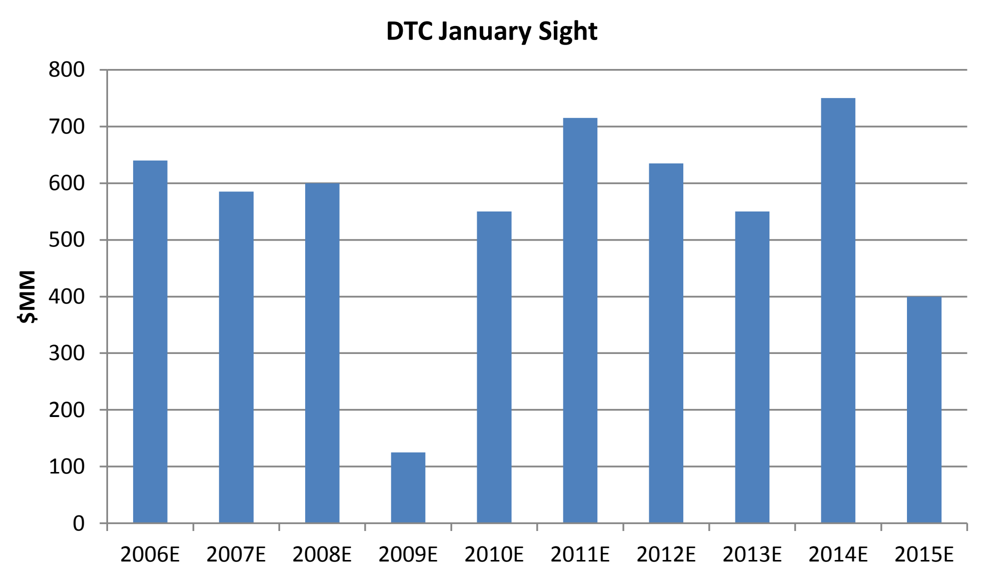
The year has started off slowly and with prices weak for the diamond sector, which is not surprising (see "*Push and pull between diamantaires and miners on prices to continue in 2015*" dated 9 December 2014) given the surplus of polished and the lack of liquidity. We expect all producers will feel the impact of weaker prices in the first quarter, and possibly into the second, as buyers trim requirements and prices. Our view is that the best outlook this year is flat prices, but a more likely scenario for rough is down 5%-10% unless the majors scale back what they supply to their clients. Should the majors be able to push goods into the market, the impact will be felt by those in the tender market.

Lower rough prices are impacting all the miners and this could continue until around mid-year, at least.

Rough price weakness started in Q3 and Q4 2014. Petra noted that the expected recovery in the December quarter did not mateialise and the company has guided prices lower for the balance of the financial year. Dominion Diamonds, for example, gave Diavik Q4 prices which were 3%-5% below those of end-September. Further evidence comes from Okavango Diamond Company (ODC), the Botswana state company which sells 14% (2015) of Debswana's diamonds (rising to a ceiling of 15% next year); De Beers sells the rest. In an interview with *Rapaport/Diamonds.Net* (January 23 2015), ODC managing director Toby Frears said his company saw a softening in prices in H2 2014 as sentiment weakened in response to excess polished inventory, lower polished prices and scarce liquidity.

De Beers has responded to soft demand and resistance to high rough prices by allowing its Sightholders to defer and additional 25% for two months and massaging prices lower by ~4% in the year's first Sight last week. We estimate this should have meant a Sight in the region of $400m (perhaps a bit lower) which compared with +$700m last year.

Exhibit 1: DTC January Sight – 2015's Sight looks weak



Source: RBC Capital Markets estimates

Whether De Beers' actions will be enough to create stable conditions in the cutting centres is doubtful in the near-term as diamantaires say rough prices still do not allow for much, if any, margin in manufacturing. They believe that more deferrals are like in the near-term. In addition, the issue of tight finance continues to cloud buying decisions in the diamond pipeline. The impact of these challenges is that polished prices are weak with the

PolishedPrices.com index of polished prices now at a four-year low, having lost 8.45 in the past 12 months and down 5.9% since the start of 2015.

Against this background we continue to be of the view that a good outcome for 2015 will be flat prices, but with the risk weighted towards the downside – perhaps 5% to 10% lower overall. Our view is that the first quarter of the year, and perhaps the second as well, could see most of the year's price weakness with some recovery in H2 provided global growth allows. The basic challenges this year are surplus polished and tight finance, with flagging demand growth in China being an allied concern. To the extent that the major miners tailor sales volumes and prices to the near-term funding and polished issues, rough prices will be more stable.

** TS Elliot's "Hollow Men"*

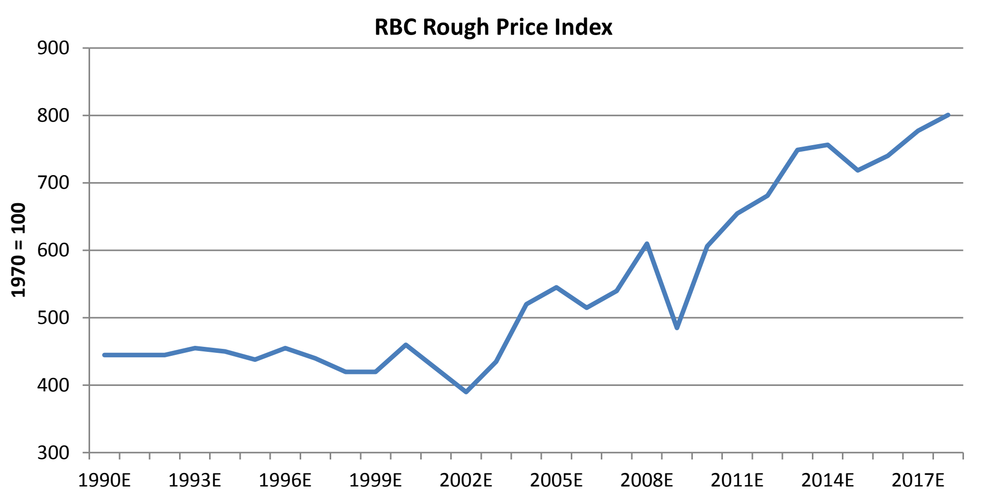
Challenges go beyond 2015

Pricing is a key issue

The challenges facing the sector were partially encapsulated by De Beers' decision to grant the deferral option, but were also clear in comments in the Dominion Diamonds Diavik Q4 production commentary that prices had softened 3%-5% in the December quarter. In addition, De Beers CEO Philippe Mellier commented in his annual address to Sightholders on the need for the diamond sector to increase "financial transparency" to take advantage of "available finance". He also implied that more effort was needed across the entire industry to ensure the integrity of the product – suggesting more vigorous attention to undisclosed synthetics. What should also add to transparency in diamond pricing is the new and growing competitive dynamic as Okavango builds up its operations.

2015 looks like a tough market as tightening credit and a polished overhang weigh; Alrosa and De Beers may need to scale back supply to stabilise prices.

Exhibit 2: Rough prices under pressure in 2015

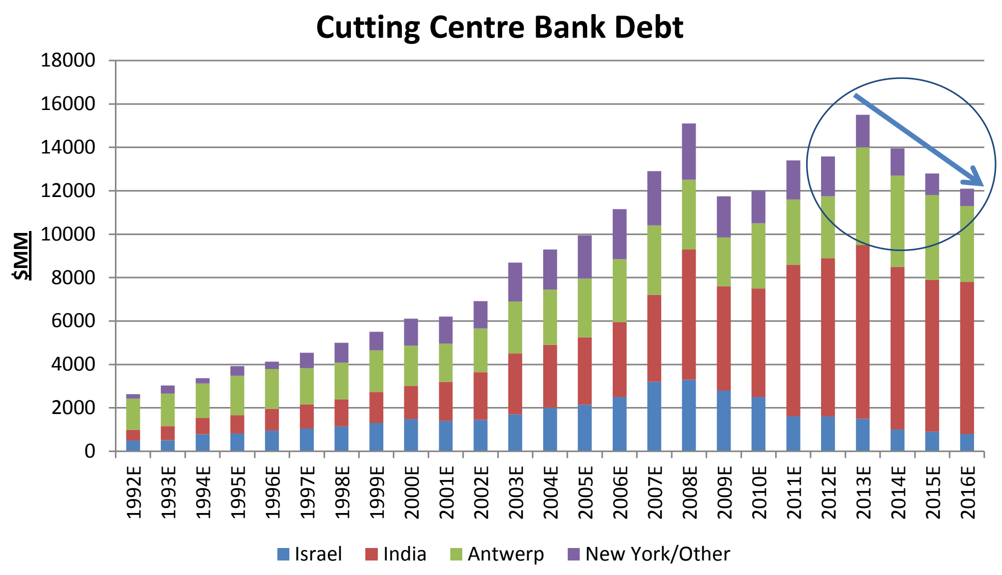


Source: All years are RBC Capital Markets estimates

Banking a major challenge

On the banking front, Erik Jens, CEO of ABN Amro's Diamond & Jewellery Group, focused in on the major issues facing the industry at the December 2014 diamond conference in New Delhi. He stressed that banking "is the sum of profitability and transparency" and that "for good companies there is enough liquidity". Essentially, he advised the diamond sector to ensure that profitability improves. This is not only the responsibility of the cutters to improve efficiencies, as well as to manage inventory better and "non-value trading"; producers must also "manage sales carefully to avoid excess output".

Exhibit 3: Cutting centre debt and its likely direction - down



Source: RBC Capital Markets estimates

As for transparency, the sector is already starting to move onto a path more acceptable to the bankers. De Beers requires its customers to move to IFRS accounting, and the banks are encouraging more clearer reporting chain-of-custody monitoring, as well as the development of price indices to aid planning and financing.

Jens also mentioned potenital solutions to the financing challenges in the diamond sector, including structured products, syndications, asset-backed and consortia lending. He also questions why the middle segment of the diamond pipeline (the components between the miners and the retailers) were funding the retail industry on such lengthy terms; he also asked if the cash-only payment system to the miners is the "only formula" available.

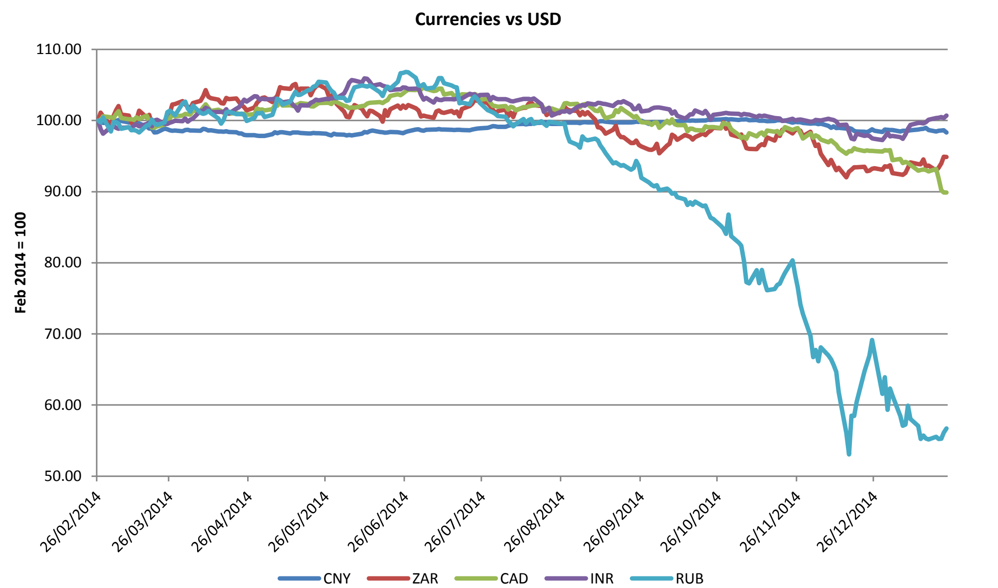
The challenge in the near-term, in our view, will be to reduce the level of debt in the diamond sector without excessive disruption and value destruction. Jens, and others, believe that the industry probably carries around $2bn-$3bn too much bank debt and this could be managed down gradually. As well as the solutions Jens mentioned, to boost the numbers of liquidity providers is the increasing trend of major jewellery companies to move closer to the miners for direct supply. Tiffany has been a leader here and any effort to improve pricing transparency would help accelerate this trend.

Currencies could play a major role

While rough prices could remain under pressure for most, if not all, of H1, many of the miners should benefit from lower oil prices and weaker currencies. The RUB has lost heavily against the USD since the Ukraine crisis and the falling oil/gas prices. This has driven the local currency price of Alrosa up strongly with the company benefiting from lower USD prices on labour and other domestic costs.

The ZAR and CAD have also lost ground, which improves local costs denominated in USD, the currency in which diamonds are sold, for DDC, PDL, GEMD and LUC (Lesotho and Botswana currencies are pegged to the ZAR). Considering that the mines in the Northwest territories of Canada need to truck all the fuel needs for the year up the winter ice road, low oil is a major benefit in terms of transport and working capital, as well as opex. In Southern Africa, labour costs, which run around 30% of opex, are affected; we estimate weak currencies should help alleviate the impact of wage increases of 10%-12%. Likewise local capex should be controlled as currencies remain softer than a year ago.

Exhibit 4: Currencies important to the diamond sector – RUB weakness the standout



Source: Bloomberg

But there are some negatives as well. Weaker currencies mean that diamond jewellery prices rise and this can impact affordability, as happened a year ago when the INR softened materially. This could be exacerbated by a higher gold price at the same time. While the INR is in a better position since the change of government, focus will remain on the renminbi (CNY) given that China is the world's second largest jewellery market. The recent strengthening of the CHF following the removal of the USD peg is likely to have an impact on Swiss watch exports and potentially demand for smaller watch diamonds. Overall, however, we see the currency markets as being a tailwind for the diamond miners this year.

Getting to grips with synthetics remains a target

The demand for increased transparency in the diamond sector includes ensuring that man-made gems are fully disclosed. In the past few years the presence sometimes of synthetic stones in parcels of natural diamonds has created negative headlines, as has the growing trend of recycled diamonds. De Beers' CEO noted in Botswana this month: "If we lose the confidence of consumers in the integrity of the industry (diamonds), then no amount of marketing spend will repair the damage". De Beers and diamond bankers have been pressing the mid-stream to become more vigilant in the chain of custody of diamonds and the use of appropriate technology to minimize the threat of undisclosed synthetic diamonds.

Promoting the product class

Some 15 years ago, De Beers used to spend more than $150m annually on marketing and advertising. Then, De Beers sold not only its own diamonds, but also most of Alrosa's rough and some Ekati goods, so the large marketing spend was probably justified. Now, selling only its own rough, De Beers' focus has switched from generic product promotion to its own products, and particularly the Forevermark brand. This reflects the view that brands are the way to promote diamonds with increasing quantities of diamond jewellery being sold branded. The message is that the sector will not benefit from generic advertising led by De Beers, though our view is that the industry would probably benefit from some generic advertising/promotion above the brand level.

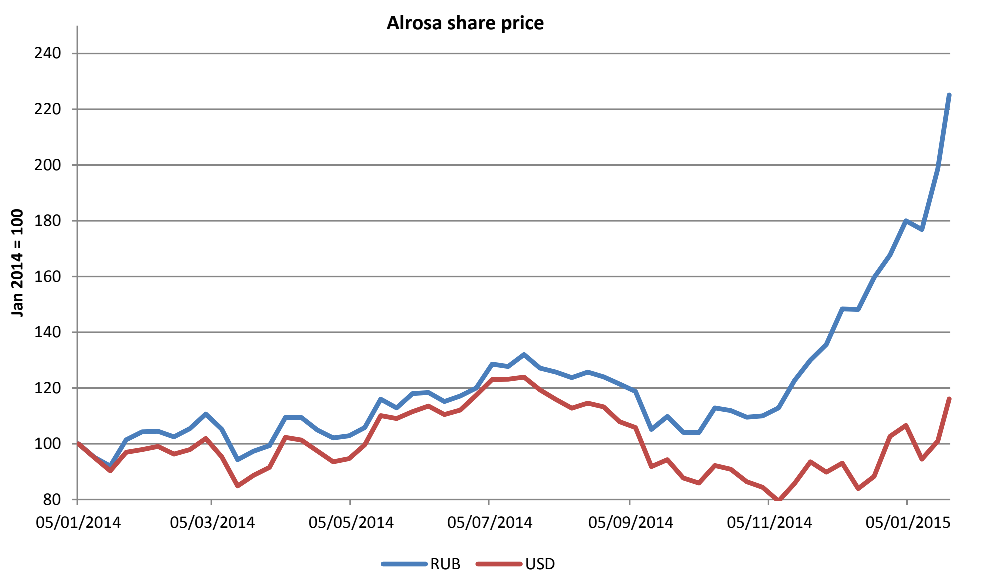
Other diamond industry and company news

Alrosa (Sector Perform, Speculative Risk, RUB44 Price Target)

Alrosa signs new long-term contracts with Indian buyers

Alrosa was awarded the right to explore and mine the Molodo River placer deposit in Sakha. The company paid RUB51.8m. The property is near Alrosa's Nizhne-Lenskoye operations and has commercial reserves of 905.3k cts. Alrosa also rearranged its finances by extending the repayment of outstanding loans of $600m, due in 2015, to 2018 and signed a $300m loan deal maturing in 2017 (see RBC Sparc dated 12 December titled "*Alrosa: managing risks to accessing debt markets*"). In December Alrosa also signed 12 long-term supply arrangements with Indian buyers during the World Diamond Conference in New Delhi, India. In 2014 Alrosa sold in excess of $2.3bn of rough to Indian companies, with direct supplies to India amounting to $700m. Finally, Alrosa's Supervisory Board approved the 2015 budget, which includes plans to produce 38.2m cts (2014 estimated at 36.1m cts with sales of +$5bn) and to sell ~40m cts. Increased production will flow from the ramp up of mining at the Mir, Udachny and International underground mines.

Exhibit 5: Alrosa Share Price performance



Source: Bloomberg

Chow Tai Fook (not covered)

The three months to end-December 2014 saw retail sales of jewellery products down 10% overall with the major contributors to the fall being Hong Kong and Macau where consumer sentiment was weak for high-end jewellery. In addition, the sale of gold products continued to be negatively impacted quarter over quarter by the high base in the same period a year earlier. The decline in Mainland China in same store sales in the December quarter was 15% compared with a fall of 21% in Hong Kong and Macau.

De Beers (85% owned by Anglo American)

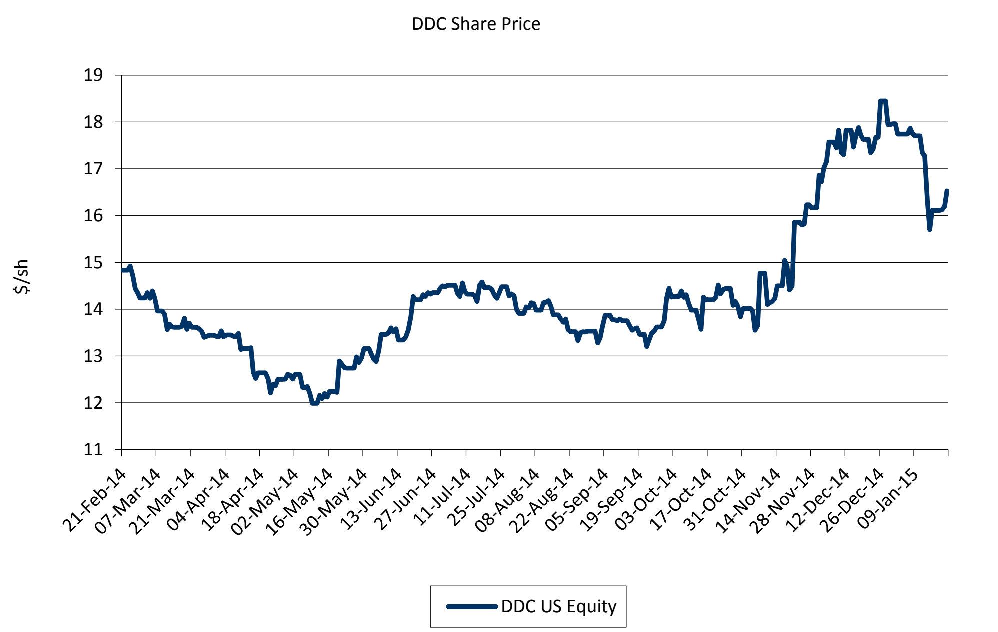
De Beers has announced its 2015 auction programme for forward contract sales (FCS). Customers asked for greater availability of FCS in the first half of the year and for a wider range of products. In the FCS to be held in March customers will also be able to bid for a wider range of products in multiple-unit volumes over one, two, three and four-cycle contract durations between March and July. De Beers' 2014 production will be reported on 28 January; its FY14 results will be reported with Anglo American's on 13 February 2015.

Dominion Diamond Corp (Outperform, US$21 Price Target)

Dominion's Diavik mine increased guidance for 2015 in terms of a new mine plan. Prices soften a bit.

Diavik reported end-December production, which was in line with our forecasts. The mine also guided to lower prices and to increased production of 6.7m cts from 2.1mt processed (previously 6.3m cts) in calendar 2015 as Rio finalised a new mine plan. See "Diavik Q4 production in line" dated 20 January 2015.

Exhibit 6: Dominion Diamonds Share Price performance

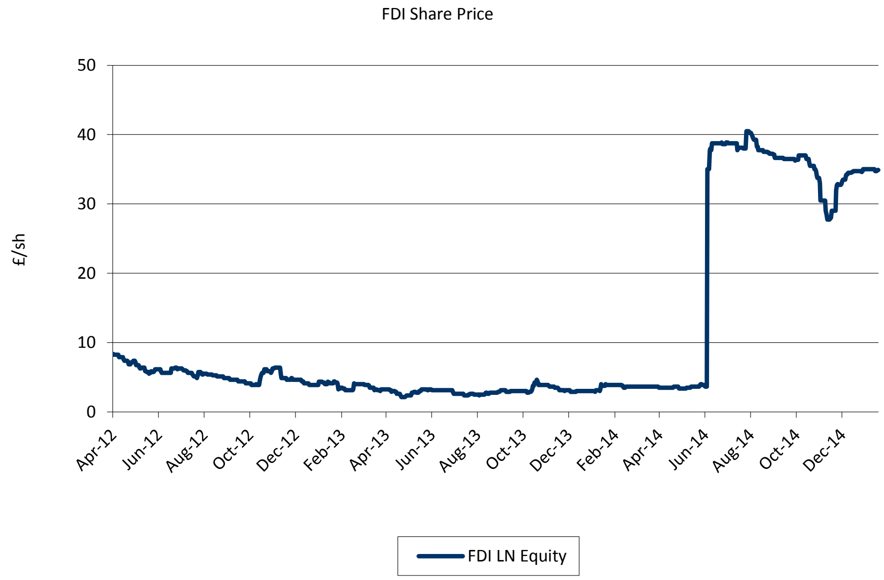


Source: Bloomberg

Firestone Diamonds (Sector Perform, Speculative Risk, £0.40 Price Target)

We initiated coverage of Firestone on 21 January with a Sector Perform (Speculative Risk) recommendation and a £0.40/share Price Target. The keys to rerating are completing the development of Liqhobong on time and within budget and the evidence of some larger stones in the distribution. We believe the latter could have a material impact on the share's rating. See "*Initiating coverage: A new diamond mine in Lesotho*", dated 21 January 2015.

Exhibit 7: Firestone Diamonds Share Price performance



Source: Bloomberg

Gem Diamonds (Outperform, £2.50 Price Target)

Gem is scheduled to release its Q4/14 IMS on Tuesday 27 January at 7am.

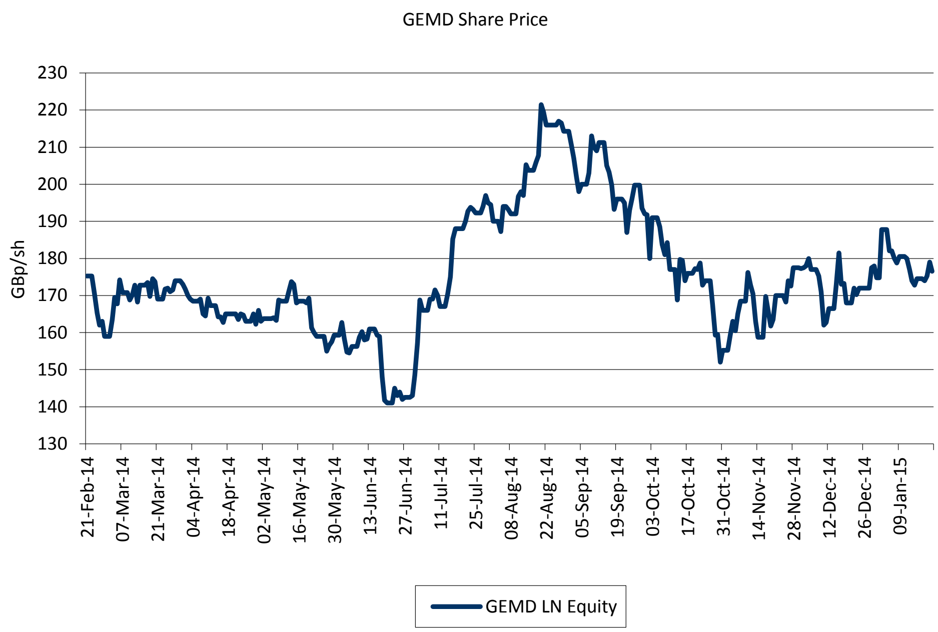
Letseng: We forecast Q4 production of 17.4kct, down qoq due to an expectation of lower grades as mining moves into the Main Pipe. We forecast FY14E production of 100kct, at the top end of the company's 95-100kct guidance. We forecast Q4 sales of 25.2kct, taking FY14E sales to 102.6kct, towards the higher end of the company's 97-103kct guidance. We forecast a Q4 realised price of ~$2,400/ct, down qoq (Q3: $2,603/ct) due to a softening in the rough market and an expected increase in lower value Main Pipe goods sold. We model FY14E costs in line with guidance, with operating costs per tonne treated estimated at Maloti 213/t, vs. guidance of Maloti 190-220/t.

Ghaghoo: We expect an increase in production from Ghaghoo as the mine ramps up; we model Q4 production of ~65kct, although this is likely to be on the high side due to excess water issues, which were addressed in H2. The company has announced that it will hold its first tender of Ghaghoo goods in February 2015, with, we understand, the goods being shown in Botswana at the moment. We expect FY14E capex of $26m.

Robust cash position expected: We expect a year end cash position of $122m, with loans outstanding of ~$38m.

Market commentary expected to point to weaker market: We expect market commentary to point to difficult rough market conditions, driven by an excess of polished inventory (~$8bn), aggressive selling by De Beers and Alrosa (although we believe that Sightholders have been able to defer more goods in recent DTC Sights) and tightening credit in the midstream.

Exhibit 8: Gem Diamonds Share Price performance



Source: Bloomberg

Kennady Diamonds (not covered)

The results from the Kelvin summer/fall mini bulk sample suggest a grade of 2.59cpt, which is 40% higher than the 25t mini bulk sample in the previous winter/spring programme. The latest sample was from the north lobe of the Kelvin kimberlite whereas the previous one was from the shallower and partly outcropping southeast lobe. The four largest diamonds were a 1.11ct off-white stone, a 1.10 ct white/colourless stone, a 0.95 ct off-white stone and a 0.90 ct white/colourless stone (latter two with no inclusions).

Lucapa Diamonds (not covered)

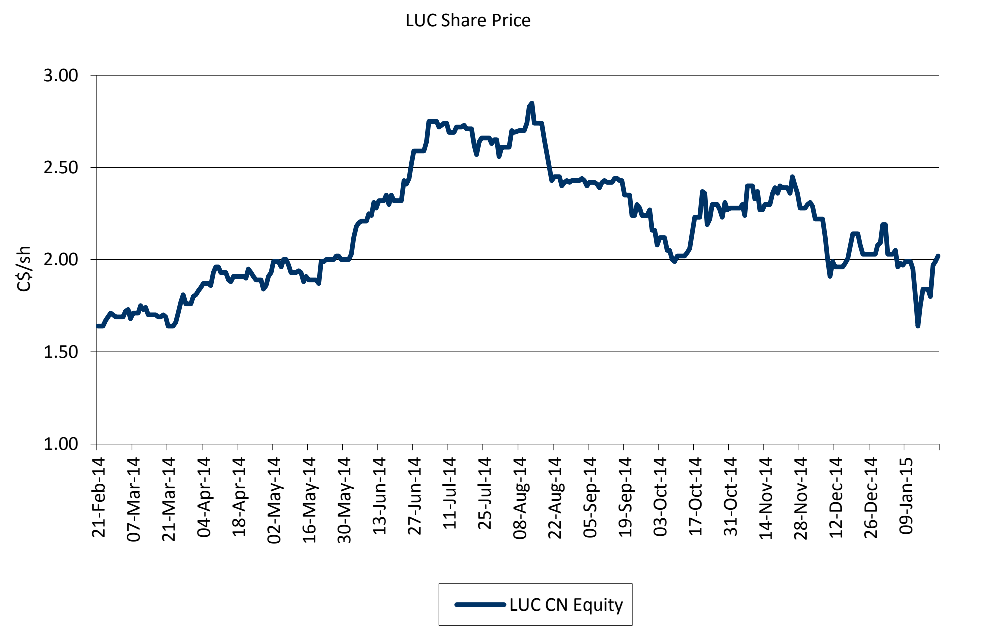
Mining of the Lulo alluvial concession in Angola is scheduled to start in January 2015. Ahead of this Lucapa has arranged a 12-month $15m bridge financing facility with an unnamed mining investment company to fund Phase 1 optimisation and technology improvements. These improvements include a 150tph treatment plant and a recovery plant including x-ray technology to recovery Type IIa stones. Lucapa is also scheduling a third sale of Lulo rough for February; a parcel expected to be in excess of 1,000ct to be sold, including a 385.4 ct parcel which was previously valued at $1,239/ct.

Lucara provides new guidance for the year and looks to divest of Mothae

Lucara Diamond Corp (Outperform, C$3 Price Target)

Updated guidance was provided on December 8, which was below what we had been modelling (see "*Lucara: FY15 guidance below our forecasts*" dated 9 December 2014). The company also decided to dispose of the Mothae project in Lesotho as it failed to meet the size and return criteria for new investment (see RBC Sparc "*Lucara looks to divest of Mothae to focus on better opportunities*" dated 23 December 2014). The decision does not materially alter our valuation. Tony George, senior VP, has also left the group to take up a position in another Lundin company, Lundin Gold.

Exhibit 9: Lucara Diamond Corp Share Price performance



Source: Bloomberg

Luk Fook Jewellery (no covered)

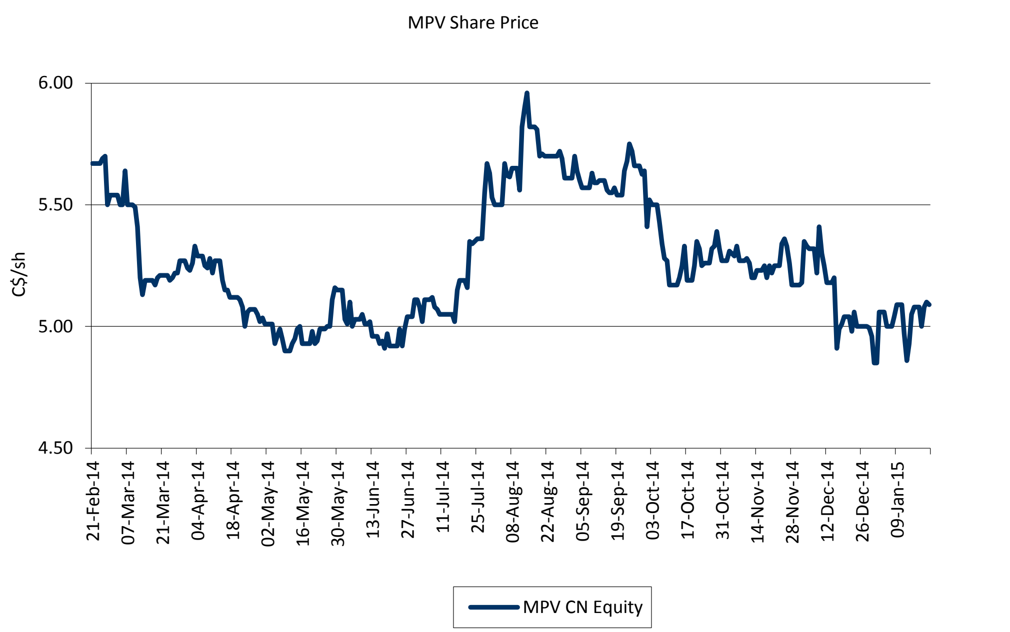
The December quarter in 2014 (Q3 of FY15) saw same-store sales growth of -6% for gold jewellery while the overall group figure was down 7%. This was an improvement in the -21% same-store sales growth in Q2 which was due, management says, to some improvement in the rate of decline in sales in gold in Hong Kong and Macau; in November sales in these regions was “double digit positive”. Mainland China was softer with same-store sales growth of -11% overall.

Mountain Province Diamonds (Outperform, Speculative Risk, C$7 Price Target)

Mountain Province makes progress on arranging its debt package.

An Impact benefits agreement (IBA) has been signed between the Gahcho Kue project and the Deninu Kué First Nation; this follows the signing of an IBA with NWT Métis Nation in mid-December. In addition, MPV has been granted a listing on NASDAQ under the symbol MDM starting 31 December 2014. In early January the company announced that it continued to make progress on concluding the US$370m term loan facility with banks.

Exhibit 10: Mountain Province Diamonds Share Price performance



Source: Bloomberg

North Arrow Resources (not covered)

NAR says DMS processing of the 1500t bulk sample from the Q1-4 ore body in the Qilalugaq Diamond Project in Nunavut is more than 50% complete. The sample is being processed for the recovery of commercial sized (+0.85 mm) diamonds and the diamond parcel will be used to provide an indication of Q1-4's overall diamond value as well as the sample's diamond content, size distribution and to establish whether or not a population of yellow diamonds seen in earlier-stage sampling persists into the larger diamond sizes.

Pangolin Diamonds (not covered)

PAN received results from microprobe work on priority kimberlite indicator grains from the Malatswae project in Botswana. The company also completed two drill holes on the project. Results of this work appear on the company’s website.

Paragon Diamonds (not covered)

Pangolin believes it has discovered a second diamond area on the Malatswae deposit in Botswana after recovering an octahedron, the fourth largest stone so far. The diamond was 0.02ct in weight. Pangolin has bought back 63m ordinaries from Lanstead Capital for £1.9m, and cancelled the shares. Following the purchase there are 275.5m shares outstanding.

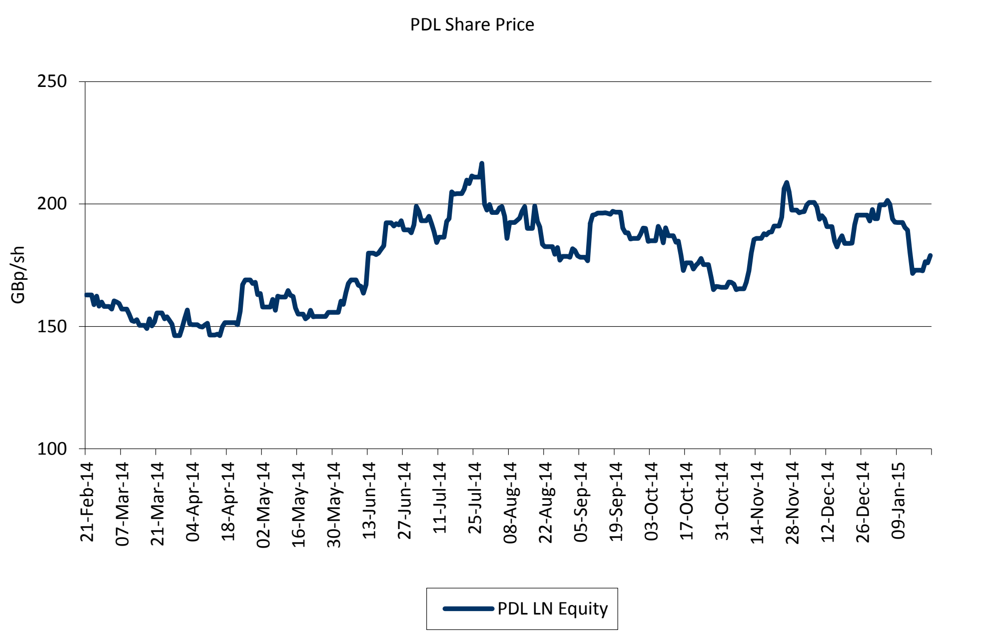
Peregrine Diamonds

Peregrine raised C$2.2m by way of a private placing in December 2014. The flow-through shares were bought by institutional investors and directors and will be used to continue the company's exploration in Canada.

Petra Diamonds (Outperform, £2.50 Price Target)

Petra publishes its IMS this morning with evidence that the current slowdown in rough prices will impact sales revenue for the balance of the year. The pick-up in prices which was expected in Q2 (to end-December 2014) did not materialize and the company has guided prices for FY15 down 10% or so. In addition, while operations are going according to plan, Cullinan's grade has disappointed due to dilution and development waste reporting to the plant. The latter should ease in H2 (see "*H1 IMS: Near-term pain ahead of grade delivery; but dividends starting*", dated 26 January 2015).

Exhibit 11: Petra Diamonds Share Price performance



Source: Bloomberg

Rio Tinto

Rio's diamond production in 2014 was lower because of a 19% decline in the output of the Argyle mine in Australia. In Q4 Argyle produced 1.8mct, 43% down on Q4 2013 and 26% lower than the previous quarter. This fall q-o-q resulted from a maintenance shutdown in the fourth quarter to implement improved designs to both underground crushers. In Canada, Diavik reported lower output in Q4 over the same period in 2013 and when compared with Q2 2014; on an annual basis output was flat at 4.34m cts (attributable to Rio). In other news, Rio CEO Sam Walsh said on a visit to India that the group would invest $500m to bring the Bunder diamond mine into production once all approvals had been received.

Rockwell Diamonds (not covered)

In the three months to end-November RDI reported revenue of C$18.9m compared with C$16.9m in the previous quarter and C$11.9m in the same quarter a year ago. Rough diamond sales totalled C$17.5m (Q2 FY15 - C$14.2m), with the average value of diamonds sold being US$1,267/ct (Q2 FY15 - $1,489/ct). Lower prices reflect a lower incidence of large stones in the quarter and resulted in a cash outflow from operations of C$2.7m compared with an inflow of C$1.7m in Q2 FY15. Rockwell also agreed to the conditional acquisition of alluvial assets contiguous to its existing Middle Orange River operations for ZAR284m (US$28.5m). Rockwell is examining its financing options.

Signet Jewellers (not covered)

Same-store sales for Signet Jewellers for the two months to end-December were 3.6% higher; the growth in the same period a year earlier was 5%. Growth in the Sterling chain was up 2.5% (same-store), Zale up 3.5% and the UK division up 9.7%. The latter turned in the best performance in 12 years. Guidance for the full year is unchanged. A quarterly dividend of $0.18/share has been declared with 29 January being the ex-dividend date.

Stellar Diamonds (not covered)

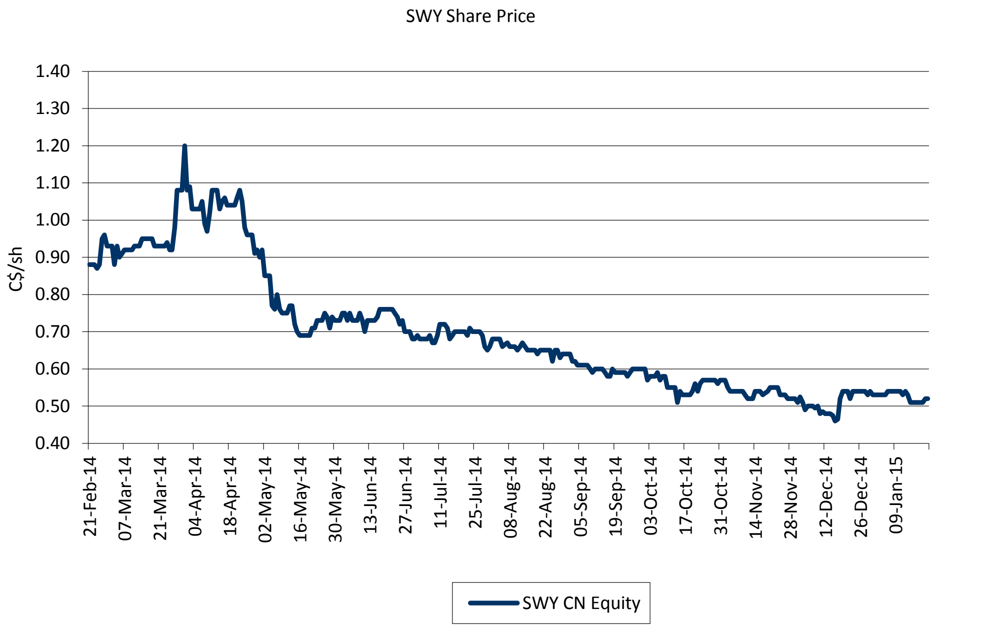
Trial mining of the Baoulé kimberlite in Guinea has yielded 2,145ct to date at an average grade of 15cpht. Stones of 8.5ct and 6.6ct have been recovered from the processing plant running at 50tph. Target monthly production is 2,000ct. At present a parcel of ~5900cts is being prepared for sale this month. Stellar entered into a $2m loan agreement with YA Global Master SPV (Yorkville) for three years. The facility provides for two initial tranches of $250,000 each to be used as working capital until the Baoulé Project commences. Stellar also entered a £1m standby equity facility with Yorkville. Stellar has also completed a ~£1m fund raising through an equity issue to continue trial mining at Baoulé.

Stornoway on track in the building of the Renard project

Stornoway Diamond Corp (OP, Speculative Risk, C$1.10 PT)

Second quarter results were published, but they are of limited relevance other than the comment that the development of the Renard project is proceeding in line with schedule and on budget. Cost incurred in the quarter were C$180m, or 22% of budget. Overall construction was 10% at end October. Cash and equivalents at end-October totalled C$388m. See our recent note: "*NAV discount offers attractive entry point*" dated 18 December 2014.

Exhibit 12: Stornoway Diamond Corp Share Price performance



Source: Bloomberg

Tiffany & Co (not covered)

Tiffany reported holiday season sales (TWO MONTHS TO END-December) some 1% below the prior year with worldwide sales (constant exchange rates) 3% higher. Comparable store sales were flat. The company terms to performance disappointing with Asia-Pacific showing "solid" growth, Europe higher and the Americas and Japan down. President Frederic Cumenal says that Tiffany anticipates headwinds from the strong US dollar, which may mean mid-to-single, figure growth in earnings in 2015. Fourth quarter results will be presorted on 20 March 2015.

Exhibit 13: RBC Diamonds Comps table

Company	Tick	Price Curr	Report Curr	Analyst	Rating	Risk	Price	Target (12m)	Imp. Return to Target	52 Wk High	52 Wk Low	NAV/sh Est	P/NAV	Shares (MM)	Mkt Cap (US$M)	EV (US$M)	ROE 2014E
Alrosa AO	ALRS	RUB	RUB	DK	SP	Spec	RUB75.62	RUB44	(42%)	RUB71.70	RUB32.75	RUB39.81	1.90x	7,360	$8,689	$8,800	1.5%
Petra Diamonds	PDL	GBP	USD	DK	O	n.m.	£1.81	£2.50	38%	£2.17	£1.25	£2.48	0.73x	506	$1,367	$1,458	7.6%
Gem Diamonds	GEMD	GBP	USD	DK	O	n.m.	£1.78	£2.50	40%	£2.22	£1.41	£2.90	0.61x	138	$368	$254	9.6%
Firestone Diamonds	FDI	GBP	USD	DK	SP	Spec	£0.35	£0.40	14%	£0.41	£0.03	£0.56	0.63x	309	$162	$59	(5.4%)
Stornoway Diamonds	SWY	CAD	CAD	DK	O	Spec	C$0.52	C$1.10	112%	C$1.20	C$0.46	C$1.15	0.45x	730	$306	$50	(5.9%)
Dominion Diamond Corp	DDC	USD	USD	DK	O	n.m.	$16.53	$21.00	27%	$18.45	$11.99	$21.68	0.76x	85	$1,400	$1,019	1.0%
Mountain Province Diamonds	MPV	CAD	CAD	DK	O	Spec	C$5.09	C$7.00	38%	C$5.96	C$4.85	C$7.02	0.73x	135	$554	$495	(20.1%)
Lucara Diamond Corp	LUC	CAD	USD	DK	O	n.m.	C$2.02	C$3.00	49%	C$2.85	C$1.46	C$2.95	0.69x	379	$616	$483	33.1%
Global									**34%**				**0.81x**		**$13,463**	**$12,618**	**2.7%**

Company	CFPS 2013A	CFPS 2014E	CFPS 2015E	CFPS 2016E	P/CFPS (2) 2014E	P/CFPS (2) 2015E	P/CFPS (2) 2016E	EPS 2013A	EPS 2014E	EPS 2015E	EPS 2016E	P/E 2014E	P/E 2015E	P/E 2016E	Free CF Yield (2) 2014E	Free CF Yield (2) 2015E	Free CF Yield (2) 2016E
Alrosa AO	RUB7.82	RUB11.29	RUB10.05	RUB10.56	6.7x	7.5x	7.2x	$4.26	$0.32	$6.52	$7.71	238.6x	11.6x	9.8x	(12.6%)	(2.3%)	1.6%
Petra Diamonds	$0.23	$0.39	$0.39	$0.59	6.9x	6.9x	4.6x	$0.06	$0.10	$0.15	$0.26	27.7x	18.3x	10.6x	(4.4%)	(4.8%)	2.4%
Gem Diamonds	$0.70	$1.05	$1.01	$1.06	2.5x	2.6x	2.5x	$0.15	$0.22	$0.31	$0.33	11.9x	8.5x	8.1x	6.4%	10.8%	14.3%
Firestone Diamonds	($0.11)	($0.04)	($0.03)	($0.02)	nm	nm	nm	($0.37)	($0.10)	($0.01)	$0.01	nm	nm	82.1x	(17.6%)	(60.3%)	(70.8%)
Stornoway Diamonds	(C$0.14)	(C$0.06)	(C$0.04)	(C$0.04)	nm	nm	nm	(C$0.23)	(C$0.07)	(C$0.06)	(C$0.04)	nm	nm	nm	(107.9%)	(147.7%)	(162.1%)
Dominion Diamond Corp	$1.24	$2.03	$3.32	$4.18	6.8x	4.2x	3.3x	$0.41	($0.27)	$0.95	$0.81	nm	14.6x	17.1x	(38.1%)	6.6%	10.6%
Mountain Province Diamonds	(C$0.34)	(C$0.07)	(C$0.07)	C$0.12	nm	nm	32.8x	(C$0.28)	(C$0.06)	(C$0.22)	(C$0.12)	nm	nm	nm	(19.3%)	(46.0%)	(28.3%)
Lucara Diamond Corp	C$0.26	C$0.31	C$0.37	C$0.39	5.2x	4.4x	4.2x	C$0.17	C$0.25	C$0.32	C$0.34	6.4x	5.1x	4.8x	14.7%	19.1%	23.0%
Global					**5.6x**	**5.1x**	**9.1x**					**71.2x**	**11.6x**	**22.1x**	**(22.3%)**	**(28.1%)**	**(26.2%)**

Company	Production 2012A	Production 2013A	Production 2014E	Production 2015E	Production 2016E	Production 3YΔ	Cash Costs 2012A	Cash Costs 2013A	Cash Costs 2014E	Cash Costs 2015E	Cash Costs 2016E	Cash Costs 3YΔ	Reserve (P&P)	Resource (M&I)	EV Rsrv	EV/ Rsrc	Resource/ Reserve
			000 carats						**US$/ct**				**MM cts**	**MM cts**	**(US$/ct)**	**(US$/ct)**	
Alrosa AO	35,940	37,426	34,801	38,005	39,713	2.0%	$157	$181	$224	$212	$221	6.8%	608	665	$14.48	$13.24	1.09x
Petra Diamonds	2,209	2,668	3,111	3,317	3,729	11.8%	$103	$97	$79	$72	$72	(9.5%)	55	168	$26.40	$8.66	3.05x
Gem Diamonds	228	95	171	301	322	50.2%	$531	$1,271	$981	$625	$613	(21.6%)	4	14	$58.55	$17.67	3.31x
Firestone Diamonds	n.m.	n.m.	n.m.	-	152	-	n.m.	n.m.	n.m.	n.m.	$42	-	0	18	n.m.	$3.37	n.m.
Stornoway Diamonds	-	-	-	-	-	-	n.m.	n.m.	n.m.	n.m.	n.m.	-	0	24	n.m.	$2.09	n.m.
Dominion Diamond Corp	2,226	2,672	4,392	5,444	4,978	23.0%	$19	$54	$70	$66	$77	12.9%	73	138	$13.94	$7.39	1.89x
Mountain Province Diamonds	-	-	-	-	830	-	n.m.	n.m.	n.m.	$61	$61	-	0	61	n.m.	$8.14	n.m.
Lucara Diamond Corp	303	441	421	488	523	5.8%	$28	$31	$34	$35	$36	5.6%	0	8	n.m.	$63.52	n.m.
Global							**$168**	**$327**	**$278**	**$178**	**$160**				**$28.34**	**$15.51**	**2.34x**

Footnotes:

TP - Top Pick; O - Outperform; SP - Sector Perform; U - Underperform. Spec - Speculative Risk

DK - Des Kilalea

(2) Free Cash Flow is calculated as: Operating Cash Flow - Scheduled Debt Repayments - Capex

Dominion Diamond Corp figures are for the year ended January 31. Petra Diamonds figures are for the year ended June

	Revenue/ct 2013A	Revenue/ct 2014E	Revenue/ct 2015E	EBITDA/ct 2013A	EBITDA/ct 2014E	EBITDA/ct 2015E
Alrosa AO	$114	$148	$130	$54	$68	$59
Petra Diamonds	$151	$152	$148	$49	$72	$75
Gem Diamonds	$2,239	$1,690	$1,067	$1,495	$1,135	$642
Firestone Diamonds	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Stornoway Diamonds	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Dominion Diamond Corp	$129	$171	$169	$114	$96	$120
Mountain Province Diamonds	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Lucara Diamond Corp	$410	$651	$580	$156	$224	$250
	$609	**$562**	**$419**	**$374**	**$319**	**$229**

Source: Company reports, Bloomberg, RBC Capital Markets estimates. Priced as of 14:30 GMT 23rd January 2015

Companies covered by RBC Capital Markets research:

Alrosa AO (MICEX:ALRS, RUB75.65, Sector Perform)

Anglo American (LSE:AAL, £11.08, Sector Perform)

Dominion Diamond Corp Inc. (NYSE: DDC; $16.43, Outperform)

Firestone Diamonds Plc. (AIM:FDI; £0.35, Sector Perform, Speculative Risk)

Gem Diamonds Ltd. (LSE: GEMD; £1.78, Outperform)

Lucara Diamond Corp (TSX:LUC; C$2.01, Outperform)

Mountain Province Diamonds Inc. (TSX: MPV; C$5.10, Outperform. Speculative Risk)

Petra Diamonds Plc. (LSE: PDL; £1.80, Outperform)

Rio Tinto plc. (LSE: RIO; £28.84, Outperform)

Stornoway Diamond Corp. (TSX: SWY; C$0.53, Outperform, Speculative Risk)

Priced as of 14:55pm UK time 23 January 2015

Required disclosures

Non-U.S. analyst disclosure

Des Kilalea;Richard Hatch (i) are not registered/qualified as research analysts with the NYSE and/or FINRA and (ii) may not be associated persons of the RBC Capital Markets, LLC and therefore may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Conflicts disclosures

This product constitutes a compendium report (covers six or more subject companies). As such, RBC Capital Markets chooses to provide specific disclosures for the subject companies by reference. To access current disclosures for the subject companies, clients should refer to https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1 or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report.

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings
RBC Capital Markets, Equity Research
As of 31-Dec-2014

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**897**	**52.92**	**290**	**32.33**
HOLD [Sector Perform]	**686**	**40.47**	**137**	**19.97**
SELL [Underperform]	**112**	**6.61**	**6**	**5.36**

Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to
https://www.rbccm.com/global/file-414164.pdf
or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

Dissemination of research and short-term trade ideas

RBC Capital Markets endeavors to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in ratings, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax, or other electronic means, or regular mail. Clients may also receive our research via third party vendors. RBC Capital Markets also provides eligible clients with access to SPARC on the Firms proprietary INSIGHT website, via email and via third-party vendors. SPARC contains market color and commentary regarding subject companies on which the Firm currently provides equity research coverage. Research Analysts may, from time to time, include short-term trade ideas in research reports and / or in SPARC. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that a subject company's common equity that is considered a long-term 'Sector Perform' or even an 'Underperform' might present a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, nor undertakes any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets' research.

Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/ or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents:

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

To Canadian Residents:

This publication has been approved by RBC Dominion Securities Inc.(member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

To U.K. Residents:

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

To Persons Receiving This Advice in Australia:

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

To Hong Kong Residents:

This publication is distributed in Hong Kong by RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities which are regulated by the Hong Kong Monetary Authority ('HKMA') and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the HKMA and the SFC under the laws of Hong Kong, which differ from Australian laws.

To Singapore Residents:

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch, a registered entity granted offshore bank licence by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch. Royal Bank of Canada, Singapore Branch accepts responsibility for this report and its dissemination in Singapore.

To Japanese Residents:

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.