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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Dominion Diamond Corporation's Ekati Diamond Mine review conference call. My name is Christine and I will be your conference coordinator for today.

At this time, all participants are in a listen-only mode, and we will conduct a question-and-answer session towards the end of today's conference. As a reminder, this conference is being recorded for replay purposes.

Please note that we will be making some forward-looking comments today. Various factors and assumptions were applied in deriving these comments, and actual results could differ materially. The principal factors and assumptions that were applied and risks that could cause our results to differ materially from our current expectations are detailed in our filings with Canadian and United States securities regulatory authorities and can be found at www.SEDAR.com and www.SEC.gov.

I would now like to turn the representation over to your host for today's call, your Chairman and CEO Mr. Robert Gannicott. Please proceed.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Thank you, and thank you all for joining us. Ray Simpson and Mats Heimersson and myself are all in Yellowknife today, and we have been for some time, of course, since the acquisition, since we actually managed to get to sit into the chair at Ekati.

I would like to emphasize, before we start, that what's being distributed to you in the form of a press release is actually -- it is not a mine plan. It is a reserve and resource statement. Part of a reserve and resource statement under the conditions of National Instrument 43-101, which is the reporting standard on which -- under which we have to operate, part of that is in order to justify something being classified as a reserve, it has to include an economic model that only relates to the mining of the reserve and nothing else, in order to justify the fact that it is of economic value and therefore qualifies as a reserve.

The actual mine plan differs very substantially from what you have got here, and we are not allowed to publish that under the same document. We will be able to answer your questions on it probably best also in separate calls with the various analysts. We want to make that clarity on that.

But just to give you an idea, approximately half of the tonnage that gets processed through the processing plant over the next two years is not included in the document that you have before you, purely because we are not allowed to include it.

So having said that, I think it is the introduction, we are here to take your questions, really. And I think we should start right into that. So operator, if you would like to move us on to the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Des Kilalea, RBC.

Des Kilalea - *RBC - Analyst*

Bob, thank you very much for that preliminary comment because it was a little bit confusing. I was pretty sure you didn't pay what you paid for what you have shown in this document today. So I will leave that for maybe later discussions, but could I ask you two other questions? The first is not related necessarily to this, but when you bought Ekati, there was a locked box, as I recall, and the value also includes what accrued from July 1 to December 1. Are you able to put any kind of numbers around that?

And then, also, in the document today you mentioned that quite a lot of the costs are fixed. Can you give any idea what percent?

And then, lastly, the marketing costs, if you can give us any indication as to what rationalization in marketing you might be able to get out with your Diavik operation and your Ekati operations.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Okay, to give you the specific number on what was in the locked box, so, Ray, if you could -- can you give a --

Ray Simpson - *Dominion Diamond Corporation - EVP*

Des, I would probably check with the finance people. They will probably get mad with me for getting some of the numbers wrong here.

But broadly speaking, the final transaction value that we paid included the adjustment in the locked box, so effectively the headline transaction value was $500 million. The final price that we paid when we released that on the 10th, that value was the adjustment that we paid. So included in that was a substantial amount of inventory --

Des Kilalea - *RBC - Analyst*

Right.

Ray Simpson - *Dominion Diamond Corporation - EVP*

-- which is one of the reasons why the value actually increased somewhat. But there were also some other adjustments, including capital money spent on the Misery project in that period, as well as revenue from sales during that period as well.

But in terms of modeling that, I don't think you have to worry about that six-month period. You should take it clean from the transaction date and look forward on that basis. So the only (multiple speakers) adjustment you'd probably want to look at is the inventory value of that transaction.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Yes, there is an extra cycle of inventory in there which we can realize in the fairly near future. I know that. But we haven't yet got that value. It is in process, as you know. That kind of work takes a while.

And what was the other part of your question?

Des Kilalea - *RBC - Analyst*

There was the rationalization. Are there any kind of savings you can make in marketing between the two operations?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Sorry, yes. Marketing, clearly. There are several things here that we can work with, and marketing is an obvious one, where, of course, we have a sorting -- we sort to market here in Canada. And then, we actually market out of a small office in Antwerp.

What BHP had been doing is having a pre- -- not really a sorting facility here, but a diamond cleaning facility and removal of non-diamond for presentation to the government valuer, and then doing their sorting in Antwerp, and then onto sales.

And obviously, we have already got that and are moving into one sorting and sales line.

Des Kilalea - *RBC - Analyst*

And then, just any idea on fixed versus variable on Ekati?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Ray?

Ray Simpson - *Dominion Diamond Corporation - EVP*

Not at this stage, Des. I think we have only been -- got our feet under the desk for a few weeks. So we will need to work on to that a little bit more.

And it is also a little bit -- often we have been asked that on Diavik, and sometimes it is quite hard to define what exactly is fixed and what is variable. But like all these mines in these locations, quite a substantial cost is on a fixed basis.

Des Kilalea - *RBC - Analyst*

Okay, thank you.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

I guess I might just interject on the value, the way that I see the value formula here, which is that we go through the next two years, and this always was -- this isn't something that has changed since we bought it. This is on the basis on which we bought it. We basically go through the next two years with the operation almost treading water. It washes its own face, if you like, while we make the capital contributions. I mean, the cash washes its own face.

But where we make the capital contributions to complete the Misery pushback and deliver this full-scale production for Misery, the Misery production itself delivers a return on the investment that we've made. And then, the real prize here is the ability to permit, come out with an engineering plan and permit it for the Jay Pipe, which is, in a rough sense, sort of like a 100 million carat resource. It leaves us more than 90 million carats and still open at debt. That is really the prize here.

Although we -- the way the purchase is structured, we feel that we have got a safe economic return with or without Jay. But as I say, the real reason for being here is Jay.

Des Kilalea - *RBC - Analyst*

Yes, thank you.

Operator

Oliver Chen, Citigroup.

Oliver Chen - *Citigroup - Analyst*

Thanks for hosting the call. Regarding the opportunity here on the other environments, including the buffer zone and the mineralization, are there any incremental -- is there any incremental information about that potential? Also, we see that you used a 7% cost of capital here. Is that comparable to how we should be thinking about Diavik as well? Thank you.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Ray?

Ray Simpson - *Dominion Diamond Corporation - EVP*

Yes, Oliver, hi. I think the additional information that you're looking for on the buffer zone, and indeed any of the other pipes, will be contained in the full 43-101, which will be issued sometime next month, so essentially what we've done is try and summarize in this document what will be going into that.

But there will be a lot more information on the Jay's location and the type of asset it is. So two or three weeks, that detail should be out. It is quite a technical document, the 43-101, if you're not used to it. But it has got a heck of a lot of information. So hopefully, you'll find that useful, and of course, after that has been issued, if you want to follow up after that to understand more from the folks who wrote that, that would be absolutely fine.

The cost of capital. In terms of the -- again, I'd just emphasize what Bob said at the start of the call. When you do these reserve and resource statements under National Instrument 43-101, you effectively have to put an economic model together to show that you combine certain aspects of it, the reserves of it, and an economic basis. And on that basis, we -- if you like, the financial model is purely illustrative, and to some degree that is true of the discount rates, as well.

Having said that, of course we have chosen the discount rate that we feel is reasonable. The model's on a real basis, and therefore we can all have our different views these days about weighted -- WACs and the rest of it. But I think 7% wouldn't be unreasonable, and that will be true of Diavik as well.

Oliver Chen - *Citigroup - Analyst*

Okay, thank you. Can you update us also on the diamond pricing environment and what you're seeing? Do you feel like there is -- you have able to sell through inventory you have been holding on (multiple speakers)

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Yes, the diamond market is certainly mildly looser than it has been in the past. [Or rather] certainly since the end of last year is there has been a sensible, gradual improvement, both in appetite for the product and, therefore, in the pricing of it.

So we have seen a price increase that's on the order of now 7% or 8% since the beginning of the year. And certainly, we don't see any need to be holding stocks. We have sold down inventory. We are not holding any stock at the moment, or nothing worth talking about.

We do hold onto some items where we feel that the price trajectory is such that it is a useful thing to do to hold it for a while. But these aren't significant amounts and they are certainly not across the board.

Oliver Chen - *Citigroup - Analyst*

Okay, thank you. And our final question, as you learn more about Ekati and have incremental detail, how does this impact your corporate strategy with respect to how you're thinking about the other remaining stake in Diavik and other potential development of your Company as you evolve?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

I think, look, obviously, as you know, these mines are very close together. They each have a head office in Yellowknife with lots of staff and they each have an airstrip. They each have a power plant, et cetera, et cetera. And there are obviously some benefits to combining the two together, even at this late stage.

But I wouldn't overemphasize that. At the relatively late stage of the reserve base at Diavik -- I mean, one difference between Diavik and Ekati is Ekati has got resources, some, in the case of Jay, very large-scale resources which are very close to being economic even today, and with some creative kind of engineering work, almost certainly can be made to be economic in the very near future.

Diavik doesn't have that. It has a very well-defined reserve base. It doesn't have much in the way of resources, even around the existing reserves. And it has almost nothing outside of what is already been very fully defined. The only real sort of major resource at Diavik is A-21, and that requires a significant capital investment.

So one of the advantages of perhaps having the two together would be that the development of A-21 could be deferred, while perhaps an alternative permitting plan could be developed for it. Whereas Diavik in a standalone mode pretty much has to get on with A-21, as it is already permitted in a conventional way, pretty soon in order that you don't strand tails of resources either in the underground or in A-21 itself.

So there are some benefits to putting them together, but Ekati, I think, is a comfortable stand-alone operation without Diavik, whereas Diavik, I guess, gets less and less comfortable in the future unless the capital commitment is made to A-21.

Oliver Chen - *Citigroup - Analyst*

Okay, and if you could give us any parameters from which we should think about EPS accretion and timing of that as it results to how we edit our models, that would be helpful.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Of course. I think the next step in this is to actually put out a pro forma plan that shows Diavik's performance and Ekati's performance together.

So why aren't we doing that today? Well, with Rio Tinto having announced pretty clearly that it is selling its diamond assets, it didn't seem at all appropriate for us to actually be essentially putting our review of a price tag on them in front of the public, and not helpful to Rio Tinto either, probably. So obviously, we haven't done that now.

The other thing is that Diavik are planning to revise upwards their forecast for the year at the end of Q2. So I would have said that by the end of Q2, we would hope we would have some resolution to where Rio Tinto were heading with their sales process, probably, but also we will have a revised forecast for the year which will -- so we will be making a release about that, and that would seem to me to be the sensible time to start looking at then issuing a pro forma, as it were. In another words, what does our overall diamond business look like at that point.

Oliver Chen - *Citigroup - Analyst*

Okay. And we do get incomings which ask to your ability to transition to a more direct operator and the risk profile there. Could you just give us your view on why that is likely to succeed?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

I think we've already got the people in place, or close to being in place, to just replace any of the people that are BHP employees that are returning to BHP.

In other words, I think our objective is to actually operate it better than BHP, in a more nimble manner then BHP could because of their scale and their distance. We would hope to be able to -- we would certainly plan to be able to improve on that, not to be threatened by it.

And I don't see it as a problem at all, actually. But there are always risks in mining, as you know. There are not associated with who's doing it, but associated with things like the geology. Obviously, the ore source for the next two years is from one open pit and one underground operation. And there can be things that cause interruptions to that, like rock slippages and so on, rock failures and open pits that could damage haulage ways and things like that.

As well as in the underground, issues like -- it is a nice cave. It is an incline cave, so there are issues like mud pushings and so on that tend to happen on a seasonal basis. When the spring freshet happens, there is a bigger risk of that and actually some planned shutdowns to control that.

But we don't -- there is nothing that suggests that our tenure there is going to have anything but a positive effect, rather than a negative effect, I would have said.

Operator

(Operator Instructions). Ned Davis, Wm Smith & Co.

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

Thank you for doing this call. I'd like to focus in a little bit more on Jay. I know you can't provide a lot of details on the plan yet because you're still exploring the different alternatives, but making the assumption that you figure out some way to deal with the lake and developing the mine, I have really two questions.

First of all, is your partner prepared to put up its share of the capital when and if there is a plan for capital investment? And then, secondly, can you give us any order of magnitude of what you think the total CapEx would be prior to production?

And then, finally, there was a stated figure, I think 2.2 carats per tonne projected yield from the 79 million carats that were projected in the report. I am just wondering if you can give us any parameters on the expected quality mix, and therefore at today's pricing levels what those carats might trade for in the marketplace?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Yes, sure. We can do some of those, at least.

I think whether or not the partner wishes to participate -- the partners, actually. The most Stewart Blusson in the form of a public company called Archon, which is a company that, although it is public, do have absolute control of that. And then, personally, there is also Chuck Fipke with a further 10%.

Whether or not they would have the ability or the wish to put up their share of the capital, I don't know. But you could -- you should ask them, I guess.

They're certainly enthusiastic about us progressing Jay. I talked to them yesterday. The fact of the matter is if they are not either able or willing, we would be quite -- there is an agreement, of course, that provides for dilution of their interest if they don't want to match the -- don't want to come to the cash goals. So I don't see that as a particular hurdle.

The magnitude of the capital of that, I don't think we can get anywhere near at the moment. I could give you some pointers, I guess. Before BHP -- the last thing that BHP did on Jay was they commissioned a study on doing a conventional Diavik-style dike completely surrounding an open-pit mine that was planned. And the Jay is about a kilometer from the lakeshore. So the idea was to build a causeway out, and then to build a circular dike, a bit like a key type of shape. And the cost for doing that two years ago was estimated to be $1 billion, so it would be more today.

We are looking at whether there are alternative ways to deal with both the open-pit and underground mining there, because the 2.2 carats a tonne at current diamond prices, we have that -- those carats estimated at $75 per carat. So it is certainly adequate to support either open-pit or else a low-cost underground mining method.

So I think we can be -- the biggest thing here is, I think, is there a creative way to get at the top of the Jay Pipe. Obviously if you don't mine underground, because you have got the lake above you, you have to leave obviously a substantial [crane] and pitter and you need to continuously support that crane and pitter. In other words, for every opening that you make to extract ore, you have to refill the opening with some form of fill And placing the fill is a big expense, as opposed to using an underground mining method where you can just advance an open hole, which is what is being done on the Diavik pipes and on -- and has been done for the underground portions of the Ekati pipes.

You obviously can't progress an open hole with a lake above you, so you have got to be able to get the lake away one way or another if you wanted to either do an open-pit or else do low-cost underground mining. So that is -- a lot of our focus is going to be on what are the alternative ways of looking at getting water off the top of this pipe.

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

Just as a follow-up on that, so you were suggesting maybe $75 per carat as based -- is that based on, then, a pretty definitive understanding of the mix -- projected mix of grade of diamonds come out of the mine -- coming out of the pipe?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

The constraints are -- it's based on a model price, as one would always do. But it is on a small sample.

The definition of the figure gets more and more reliable as you get bigger and bigger samples, and conventionally you'd be looking at somewhere close -- somewhere between 5,000 and 10,000 carats before you felt really comfortable that you had a full mix of the relevant qualities in the relevant size classes.

The trouble with small samples is that they are dominated by small diamonds, whereas the revenue from a diamond mine is dominated by larger diamonds than those. So what one is always doing is trying to model the ranges of qualities and shapes and so on, colors, that you see in the small diamond population up into what would be a larger commercial diamond population. And it is always subject to uncertainty, and that uncertainty, of course, drops as you get a bigger and bigger sample.

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

Okay, just one last thing on this topic. If you down the road go ahead and develop Jay, are the existing Ekati processing facilities, power, et cetera, is there a significant incremental investment requiring all of that infrastructure to support the huge volume of production that would be coming out of that pipe, based on the projections shown in the report?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

No, the Misery pipe, for instance, which is in -- which is a big part of the current mine plan, is actually about the same distance from the Ekati-based facilities as is Jay. So it is no further to deal with than that.

I don't think we would be contemplating an increase in the tonnage throughput of the Ekati plant because of Jay. It would be basically Jay replacing the tonnage throughput that is there now.

So in principle, it doesn't require any expansion. Obviously, plants age. Different things age at different rates, and so you're forever replacing various bits and pieces in the fixed infrastructure base. But there is nothing that needs a massive revamp, and there is tailings capacity there, particularly, of course, because of the completion of the old open pits and underground, which potentially, at least, forms a good tailings vault for the future.

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

Okay, I missed the first 30 seconds of the call. What will the balance sheet look like once the inventory is brought, if you will, to normal? You know, you've worked through this extra cycle. What would the balance sheet look like?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

(Multiple speakers). No, I understand. We have only just arrived here. We need to get a lot more work done before we can get as specific as that. Ray, have you got any comment to add to that?

Ray Simpson - *Dominion Diamond Corporation - EVP*

No, no. I would think the two adjustments to the balance sheet that is easy to point to, you know, close to cash terms is actually there was about $65 million of cash within the locked box that we bought, plus what we would -- there is natural work-in-progress inventory, as you can imagine. You mine diamonds from the pipe. They have to get cleaned, sorted before they are sold.

We would hope to reduce what is probably about nearly a three to 3.5-month, four-month cycle down by at least one sales period, which is a six-week period. So we would recognize, if you like, a 10th of the annual production in a shorter time frame. We would like to do that, and reduce that.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

So in round numbers, about $50 million in diamonds? Yes. Okay?

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

Okay, thank you. Appreciate it.

Operator

Edward Sterck, BMO.

Edward Sterck - *BMO Capital Markets - Analyst*

So I've just got a couple of questions here. Firstly, with the NI 43-101 that is due out next month, is there -- how much vindication is it possible to put into that regarding the non-code compliant mineral resources that will be used to fill the plant, or are we just working on the basis that we have to assume that you are only disclosing the code-compliant resources going through the plant, but the plant will be operating more or less at capacity?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Go ahead.

Ray Simpson - *Dominion Diamond Corporation - EVP*

It is Ray here. Yes, good question.

We can certainly give lots of information about the general resource. That would even include Jay from location geology, even our estimates of diamond price, grade, etc.

Stuff that's mineralization, and a good example of this is the Misery pipe. So with the Misery pipe, the project is justified on the Reserve base only. However, the mine plan that we've got and we are executing at the moment includes taking out a lot of what we call a satellite ore, which was never fully drilled at the time. And consequently, it has never made its way into the Reserves and so not even the resource statement.

And there, we can give you indicative ranges. Indeed we have in the press release. If you go to the end of the press release, we give you the ranges of the grade and the value and the tonnage of those deposits. But under the rules of 43-101, we can't turn that into an economic value. So we certainly couldn't do a financial model on that basis. We can only do the financial model for the Reserves. And indeed, it's more the other way around. To prove the Reserves, you have to do the financial model.

Edward Sterck - *BMO Capital Markets - Analyst*

Would it be fair to assume that the plant is going to be operating more or less that capacity?

Ray Simpson - *Dominion Diamond Corporation - EVP*

Absolutely. Definitely. And yes, so if you look at the section at the end of the press release, where we talk about the mine life, we've given as best we can indications of the additional material that you will see coming into the mine plan over the next two, three years. So that's the Misery satellite pipes and, of course, rejects.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Is there a point here, Ray, where we can actually give everybody the bar chart that's got the contributions each year of the different reserves, resources, and mineralization is?

Ray Simpson - *Dominion Diamond Corporation - EVP*

Yes, I would certainly hope so. I would caution that whenever I try and say something, the lawyers tell me, well, we can't quite say it that way. So just as an example, we know why the regulations are there, and they are there for good reason. But they wanted us to call out, of course, rejects, what we call in Diavik the RPR material an expiration target -- and also sort of give you that as an example, where clearly it's not an exploration target, but the rules are so tightly defined that things that are slightly unusual, they will find a nice, easy home for them.

So what we will do, as best we can -- it won't be in the 43-101, because the 43-101 is there to divine the reserves and resource base area but as best we can, we will give additional information and we will work with the legal advice to give you as much information as we possibly can.

Edward Sterck - *BMO Capital Markets - Analyst*

Ray, thank you. And then just one or I guess a couple of follow-up questions on Jay. Firstly, has a bulk sample been taken in the past? And then, secondly, if the joint venture partners don't contribute to CapEx in the events of Jay being developed, what is the dilution effects that would occur to their interests? I.e., would Dominion's stake increase if they didn't contribute?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Okay, bulk sample -- yes, there has in a way -- and obviously being 1.2 km from the shore, it would be a major -- it would be a major undertaking to put a decline down there. So that's not been done, and in fact that hasn't been done with most pipes in the recent past because large diameter reverse circulation drilling has become much better. So yes, the sampling that was done here was done with large diameter reverse circulation holds. But it does constitute a bulk sample of the upper -- there are two phases in Jay, like most of these pipes. There is a pyroclastic -- to be loose about it, a pyroclastic phase in the top, then a more true volcanic phase below that. The bulk sample data is restricted to the upper phase. However, there are the usual -- there are drill holes, core holes that go -- that penetrate well down into the more volcanic material.

So I think the general size and shape of the pipe is quite well known. The details of the position of the walls is not as well-known as you would want them to be for final pit design. The grade is well constrained. The thing that is not as well constrained is diamond price because of the small -- relatively small size of the sample. How many carats was it? You remember? -- do you remember?

Ray Simpson - *Dominion Diamond Corporation - EVP*

I can't remember offhand. I will check on that, Bob. But, yes, it was not substantial. It was good enough to give (multiple speakers) -- yes, yes, and a number of different puzzles.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

So, okay. That was the first part. Sorry, Ed, what was the --?

Edward Sterck - *BMO Capital Markets - Analyst*

Just with respect to dilution of the joint venture partners, if they don't --.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Yes, I know, it's very conventional. So we don't have the joint venture agreements in front of me, and they are actually very simple agreements. But it is just conventional dilution. And I forget where there is the usual thing where if it goes down to a certain level there is a trigger point where it goes over to then sort of an NPR [interest]. Instead of a participating interest.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, fair enough. And then actually just with respect to (multiple speakers).

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

We can give you the details on that on a separate call to you, if you like.

Edward Sterck - *BMO Capital Markets - Analyst*

Okay, that sounds great. Thank you.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Anything else?

Operator

Thank you. (Operator Instructions). Jeremy Kahan, Bow Street.

Jeremy Kahan - *Bow Street LLC - Analyst*

Could you just clarify the cash flow characteristics of the mine for the first two or three years?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Well, not yet. But on the other hand, to give you a -- the way I view this is in the first two years, we basically eat the full lunch there. In other words, the cash basis, the cash that is generated is more or less consumed by the capital contributions that are made down at Misery to complete the Misery layback and acquire the equipment that is needed for the pit production.

So that's the way the first two years work. Then you get the big bump of the Misery production. That is where we get our payback. There is basically like a three-year period there where the cash flow is very substantial. At that point, then, we then are into smaller pipes, other smaller pipes that are on the property. And hopefully we are well along the road with permitting a development at Jay.

But we've talked a lot about Jay on this call, and I just want to make sure you don't get unrealistic about this. The permitting process up here, although it is certainly headed for improvement, there have already been some improvements made. Power is being developed from Ottawa into the local government up here, which is of course very anxious to see development proceed and so on.

Nonetheless, viewed conventionally and in the way permitting processes have had to go along in the past, it's probably a five-year period before you actually get full clarity on an operating permit for something like Jay. And there's probably a further two years while you do free stripping and other infrastructure construction that's required to actually produce from it.

So this is a six- or seven-year timeline. It's not something where we are going to be starting up work in a year or two. I think you should keep that clearly in front of you.

But the idea here is that the reserves and resources, over the lifetime -- over that seven-year lifetime, deliver us the return that we -- a comfortable return on the investment that we've made. And really that Jay is the big prize if we can achieve that.

Jeremy Kahan - *Bow Street LLC - Analyst*

Just on the return, and as we think about potentially bringing another half of Diavik, how do you guys think about a hurdle rate for acquisitions?

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

For us, it's certainly something like 20%, has to be, if that's what you mean, I think.

Jeremy Kahan - *Bow Street LLC - Analyst*

Yes, it does. Thank you very much.

Operator

Justin Steinberg, Steinberg Asset Management.

Justin Steinberg - *Steinberg Asset Management, LLC - Analyst*

Ben, I just wanted to get a sense -- and you've provided some details around Jay, but just wanted to get a sense if you can provide details -- and I understand that you are constrained in some regards from doing so. But as it relates to the existing assets, Misery and you talk about the RPR and others, could you help us size that opportunity in terms of what the incremental opportunities might be?

Ray Simpson - *Dominion Diamond Corporation - EVP*

Certainly, Justin, again, if you want to -- and I could probably go into some more detail probably off-line that will help you through that. But if you look at the back end of the release that we did about the life-of-mine, we talk about that Misery satellites in terms of our range of grades and tonnage and, of course, rejects. So those are the things that we are currently trying to do. And they would obviously be added into our economic model in the short term.

In terms of the longer term on Jay, I mean, that's a long way off, having to project exactly how that would look. And the big number on that of course is going to be like the capital project in the choice of method to develop that pipe. That is very early days to give you an indication of that. But clearly, as Bob mentioned, looking for a good return on that deposit, and the nice thing about it is the size of it.

So if you look at the tonnage and the carats on that deposit, it's very substantial. And of course sustain a mine that is doing 4 million tons a year for quite some years. But it's too early days to put economic parameters around Jay at this point.

Justin Steinberg - *Steinberg Asset Management, LLC - Analyst*

And then when you think about other incremental opportunities like Jay, where there are not existing reserves now, in the press release you mentioned Lynx, Sable, Fox, didn't know if those were too small to be relevant to this conversation or if there are other incremental opportunities to see that aren't apprised like Jay is but are worth mentioning and something that you would consider developing and how we should think about the size of those.

Ray Simpson - *Dominion Diamond Corporation - EVP*

Certainly. Pigeon, for example, is in the current mine plan, although obviously the numbers that we gave out towards us on a Reserve basis. There are additional inferred resources there that we would hope to be mining out. But obviously that's something that it's early days for us to look at. But I think there's -- it's fair to say that we can probably take a more positive view of some of these smaller deposits than perhaps BHP did in the past two. As a large mining organization we are looking for very large wins in terms of what they could mine. And over the coming six months to a year, we will be reviewing those smaller pipes to see whether, for example, Sable, whether we could bring that into the mine plan in the next few years because quite a bit of permitting work has been done on Sable, as an example.

Other pipes, obviously you have to go through the same permitting process as Jay. Therefore we'd have to sort of think in the longer term planning context. And that will take some more time.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Yes, though I would point out that the other pipes other than Jay are on land essentially. Commonly they've got a small lake above them or on one side of them. So on. But they are not the same permitting challenge as dealing with a lake like the Sauvage which is the one that has Jay in it.

Justin Steinberg - *Steinberg Asset Management, LLC - Analyst*

Terrific. Thanks very much.

Operator

At this time, we have no further questions. I would like to turn the call back over to Robert Gannicott.

Robert Gannicott - *Dominion Diamond Corporation - Chairman, CEO*

Okay. Look, guys, I realize the frustration of getting a document that is really sort of only half of the story, if you like. And I just express our willingness to fill in the gaps as we can in individual calls separate from this. Appreciate your time in coming on.

This is, in my view, this is a wonderful opportunity. We are based in Yellowknife now. We are very much welcomed here by the local government and indeed the local population. We are well known to the regulators both here and in Ottawa.

We think we can bring -- some connections to bear on permitting some of these things that would not have been an easy thing for a large multinational company to do at all. It's not that we are going to cut corners. We -- none of us have got any desire to do things that threaten the environmental integrity up here.

But we do believe that we can get our voice heard perhaps in an easier manner than being able to happen in the past. So the challenge as I say, the challenge here is to permit something like Jay, which represents a big, long-term resource that allows this Company and, indeed, the project itself to take advantage of the long-term horizons of the diamond market as well as the short and intermediate term ones. We really look forward to getting on with that. We are already very focused on that sort of thinking up alternatives to how we get at the Jay pipe for instance, as well as some of the other things that are on land here.

So thanks very much for listening, and you're going to hear a lot more from us in the future. And as I say, my apologies again that the first thing you hear from us is certainly an incomplete story. But I am afraid the constraints of regulators and so on just don't allow it to be any different at the present time. So thanks very much.

Operator

Thank you. And thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
