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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Dominion Diamond Corporation's fiscal 2014 second-quarter earnings results conference call. My name is Patrick and I will be your operator for today's call. At this time, all participants are in a listen-only mode and we will conduct a question-and-answer session toward the end of today's conference. As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the call over to Richard Chetwode, Vice President, Corporate Development, and head of Investor Relations. Please proceed.

Richard Chetwode - *Dominion Diamond Corporation - VP Corporate Development*

Thank you, operator. Good morning, everyone, and welcome to our fiscal 2014 second-quarter results conference call. On the call today is Bob Gannicott, Chairman and CEO; Wendy Kei, Chief Financial Operator; Chantal Lavoie, President and Chief Operating Officer of the Ekati Mine; and Jim Pounds, President, Diamond Sales; all of whom will be available to answer questions after the presentation.

Before we begin I would like to point out that this conference call will include forward-looking information. Various material factors and assumptions we used in arriving at this information and actual results could differ materially. Additional information about these factors and assumptions and the risks that could cause actual results to differ materially from our current expectations are detailed in our most recently filed Annual Information Form and MD&A, which are publicly available.

Our most recent results also include a reconciliation of certain non-IFRS financial measures to the most directly comparable IFRS measures.

With that, I will hand you over to Bob Gannicott.

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

Thanks, Richard, and good morning, everyone. Welcome to the Dominion Diamond Corporation quarterly earnings call. We have now completed the move of our entire senior management team to Yellowknife and we are all at the Ekati Mine site for this call today.

The distorting effects of the acquisition accounting for the Ekati purchase continue to flow through our quarterly reports and will do so for at least one more quarter, but we are well pleased with the performance of Ekati, which has delivered an adjusted EBITDA margin of 30% for the quarter. Grades and diamond sales are ahead of our purchase model, while costs are modestly lower even though our new Chief Operating Officer, Chantal Lavoie, only assumed control of the operation 2 months ago.

Diamond sales have also exceeded expectations in a marketplace that has held its ground during the last 6 months despite the financial troubles of India and China. Diamonds, we are pleased to say, are still dominated by US offtake rather than emerging markets.

We started immediately initiatives on develop the Jay Pipe, a resource of more than 90 million carats representing a further 10 years of open pit production beyond the current mine plan, and are well pleased with the progress to date. Related to this initiative, we are also working on extensions to the existing mine plan to ensure that there is time to permit and transition production to Jay without a disruption. Jay also holds the potential for further life beyond the open pit as an underground mine.

Although our operational challenge is Ekati, we have also seen change and improvement in the Diavik Mine operated by Rio Tinto, where we have a 40% ownership. Production targets have been raised and costs reduced during the period when Rios sought to sell its diamond business. Rio has now elected to retain its diamond business, but the changes are entrenched.

Marc Cameron, the first Canadian to lead the Diavik since production started, has just been appointed to replace Niels Kristensen as President of Diavik. We thank Niels for his contribution in leading the reshaping of Diavik initiative and welcome Marc, who has part of Diavik since the construction period and know both us and the project well.

I am first going to ask Wendy Kei, our CFO, to take us through what is inevitably a complex financial report, with an emphasis on allowing you to understand operational performance as well as the other nonrecurring components related to the acquisition accounting. Wendy is going to be followed by Chantal, who will discuss the performance of both the Ekati and Diavik Mines.

Jim Pounds is then going to discuss the diamond market in some detail. I am going to return at the end to discuss Jay Pipe developments and our exploration program, before we turn the call over to your questions. Wendy?

Wendy Kei - *Dominion Diamond Corporation - CFO*

Thank you, Bob, and good morning, everyone. This is our first full quarter as owners and operators of the Ekati Diamond Mine. Consolidated sales were $261.8 million, which generated consolidated operating profit of $12.4 million. This resulted in consolidated net loss attributable to shareholders of $16.3 million or negative $0.19 per share for the second quarter, compared to consolidated net profit attributable to shareholders of $4.8 million or $0.06 per share in the prior year.

The Diavik segment results were as expected, and the Ekati segment results were much better than expected. Included in consolidated net loss were two expenses related to the Ekati Diamond Mine acquisition.

The first was a $10.6 million after-tax expense related to the cancellation of the credit facility that had been previously arranged in connection with the Ekati acquisition. The cancellation fee has been reported as part of financing expense for the quarter.

The second was a $5.4 million after-tax expense related to the restructuring of the Antwerp, Belgium, office that we acquired. This amount has been included in selling, general, and administrative expenses under the Corporate segment for the second quarter.

Excluding these two items, and the impact to Ekati cost of sales of the sale of opening acquisition inventory that was recorded at market value, the Company would have generated a consolidated net profit attributable to shareholders of $11.1 million or $0.13 per share.

Consolidated sales of $261.8 million were considerably higher than the $61.5 million for the second quarter of the prior year as a result of including Ekati in the current year and not completing three full sales for Diavik during the prior year. Consolidated operating profit also increased 38% from the comparable quarter of the prior year.

Please note that for the Ekati segment we are continuing to see the impact of the sale of opening acquisition inventory that was recorded at fair value. This will continue, although to a lesser degree, into the third quarter until we are able to sell through the remaining $15 million at market value of this opening inventory.

The Company reported financing expenses of $19.6 million compared to $2.2 million in the second quarter of the prior year. Included in financing expenses was $14 million related to the cancellation of the credit facility that was arranged as a bridge facility in the event that closing of the Swatch and BHP transactions did not coincide. Also included in financing expenses is accretion expense of $4.5 million related to future site restoration liabilities at Diavik and Ekati Mines.

During the second quarter, the Company spent $3.1 million on exploration; $2.1 million on the Company's Lac de Gras property with North Arrow Minerals Inc. and Springbok Holdings Inc., and $0.9 million on the Jay Pipe within the Buffer Zone at the Ekati Diamond Mine.

I will now discuss our three segments in detail beginning with Diavik. During the second quarter the Diavik segment recorded sales of $91.3 million, compared to $61.5 million in the comparable quarter of the prior year. The Company sold 0.7 carats at an average price of $130, compared to 0.4 million carats at an average price of $142 in the second quarter the prior year, resulting from a 62% increase in carats sold, offset by 9% increase in rough diamond prices. The decrease in diamond prices resulted from a decrease in the quality of the sales mix. Sales in the second quarter of the prior year also included higher-priced goods that had originally been held back by the Company until stability returned to the rough diamond market.

Diavik rough diamond production during the quarter decreased 13% from the comparable quarter the prior year. The decrease in production was primarily due to the shift from open pit mining to pure underground operations.

Cost of sales from the Diavik Diamond Mine was $68.3 million, resulting in a gross margin of 25.1%, compared to cost of sales of $46.8 million and a gross margin of 23.9%. The Company uses earnings before interest, tax, depreciation, and amortization, EBITDA, as a percentage of sales as a measurement for cash margin mine performance. The EBITDA margin for Diavik was 47% compared to 43% in the second quarter the prior year.

The SG&A reported for Diavik relates to the costs associated with selling and marketing the Diavik diamonds.

The Ekati segment generated sales of $170.5 million for the second quarter and sold approximately 0.6 million carats for an average price of $289. Included in sales for the quarter were proximally $120 million in opening acquisition inventory.

The cost of sales for the Ekati Diamond Mine was $166 million, resulting in a gross margin of 2.6%. The Company estimates that cost of sales would have been $152 million, resulting in a gross margin and EBITDA margin of 11% and 30%, respectively, if the effect of the market value adjustment made as part of the Ekati mine acquisition was excluded.

The SG&A reported for Ekati relates to the cost associated with the selling and marketing of the Ekati diamonds.

SG&A for the Corporate segment increased $8.3 million of which $6 million related to the restructuring costs at the Antwerp, Belgium, office related to the integration of the Ekati acquisition.

I would now like to discuss our balance sheet. As you can see we are in a very strong financial position at July 31. We have cash and cash equivalents of $224.2 million and restricted cash of $123.4 million.

During the second quarter, the Company repaid and canceled our senior credit facility. In addition, the Company canceled the credit facility that had been arranged to fund the Ekati acquisition.

In terms of inventory, at July 31 the Company had 0.5 million carats of Diavik rough diamond inventory with an estimated market value of approximately $65 million, and 0.4 million of Ekati inventory with an estimated market value of $135 million.

The Company continues to expect consolidated sales in fiscal 2014 to be approximately $730 million, with $365 million coming from each of the 40% share of Diavik and the 80% share of Ekati. The Company did not finalize the purchase price allocation for the Ekati transaction during the second quarter and expects to do so in the third quarter. Nonetheless, we have updated our preliminary allocation, Note 4 of our financial statements, for additional inventory value on the date of the acquisition.

Now let me turn the presentation over to Chantal.

Chantal Lavoie - *Dominion Diamond Ekati Corporation - President & COO*

Thank you, Wendy. Morning, ladies and gentlemen. This is my first earning call as part of the Dominion Diamond management team, and I am quite excited about the future that lies ahead of us.

Let me provide you with a quick operational summary. During the course of the quarter, both Ekati and Diavik delivered excellent performance, achieving slightly better than expected operational results and production and costs, while maintaining a strong focus on health, safety, and environment.

At Ekati, activities through the calendar quarter continued to focus on ore production from the Fox open pit, and Koala and Koala North underground operation, while pushing the waste stripping activities at Misery. Carat production, at 100%, was slightly ahead of plans for the calendar quarter, with 390,000 carats recovered compared to 358,000 planned, with the main contributor being slightly higher than planned grade.

Production from Fox continued to be strong, with lower than expected waste dilution in the ore, while underground production was in line with plan.

The waste stripping activity at Misery were negatively affected by a pair of nesting hawks within the pit mining area. Additional precautions were required to protect the nest and successfully manage between the operation team and local regulators. This slowdown is not expected to have an impact on Misery overall production profile.

As the Misery pushback continued, opportunities to process some of the ore from Misery's South pipe extension were realized and confirmed that the grade is better than expected. In addition to the normal activities, a trial was completed where close to 50,000 tonnes of stockpile coarse ore rejects were processed and returned positive results.

On a cost side Ekati performed well, with operational results coming in at 1% below budget for the calendar quarter. Overall, Ekati is expected to produce in line with our previous guidance.

On the Diavik side, the calendar quarter saw continued strong performance, with carat production of 1.6 million carats recovered versus 1.2 million planned. Grade was essentially on plan with higher than expected tonnage being the main contributor for the additional carats.

Mining activities in the three areas, A-154 South, A-154 North, and A-418, progressed well. We expect Diavik to produce approximately 7.3 million carats, in line with our previous guidance.

The Diavik team continued their efforts on reducing total cost, with the second quarter coming better than plan by 7%. Initiatives around energy management and heap recoveries are showing early positive results.

The Company expects to have revised mine plans for both Diavik and Ekati by year end. I will now pass the call to Jim to discuss the diamond market in more detail.

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Jim Pounds - *Dominion Diamond Marketing Corporation - President*

Thank you, Chantal. Firstly, turning to our Diavik production, during the second quarter we held three sales in Antwerp and Mumbai and sold a total of $91.3 million. Available for sale during this period were the goods held in inventory at the end of Q1, with a market value then of $85 million. And due to timing of the sorting and sales process, the first shipment of production delivered during the second quarter.

At the end of Q2 we had approximately $65 million of inventory available for sale, and is expected there will be three shipments delivered during the Q3 period, but only two shipments will be available for sale due to the timing of the sales.

Now turning to Ekati, during the period, we continued selling under the BHP auction method and sold $170.5 million, part of which was the sale of goods freed up from the working cycle by sorting and selling Ekati's diamonds to the Dominion Diamond cycle. At the end of Q2 we had approximately $135 million of inventory available for sale; and during Q3 we would expect three shipments to be delivered, only two of which are likely to be available for sale during the period.

We have only two sales left using the BHP auction method, and after that we intend to merge the Diavik and Ekati productions together for sale. We've been talking to our clients about the potential for long-term contractual arrangements, based on guaranteeing a minimum supply in terms of carats and pricing the goods according to our current pricing methodology for Diavik. We would also hold tenders at regular intervals to establish market levels.

We will continue to hold 10 sales a year in both Antwerp and Mumbai and also have the option for selling in Yellowknife to the local manufacturing industry.

Now turning to the diamond market, overall rough diamond prices, which rose in the first few months of the year, have since plateaued and in some cases weakened to a minor extent. This is in line with the increased tightening credit to the industry and the continuing challenges of the rupee in India. So far this year, rough prices have risen by 6%.

The second quarter is also traditionally the quiet time for the diamond market, ahead of the important fourth quarter of the retail season in the US, the Diwali holiday season in India, as well as the main buying period in China which starts on National Day in October and continues until the Chinese New Year.

The polished market for commercial goods, the type of goods that sell in the largest markets -- the USA and more increasingly China -- is doing well across all sizes. But with softer demand in the Far East and the restricted liquidity in the Indian market, retailers in the US mainly have been able to squeeze manufacturers; so polished prices have not increased substantially in the first half of the year.

The US remains the largest consumer of diamond jewelry, and the more positive economic news from there bodes well for a strong retail season which will deliver sustainable price growth.

In general, demand is still good in China, and one trend that is evident is that the Chinese consumer is tending to trade down in quality, color, and size. This is something you would expect as the market becomes more democratized and the expanding middle class enters the jewelry markets. The recent results from Tiffany support these encouraging trends in China.

India has been challenging with the fall of the rupee, not just because of the impact in the amount of credit available to the Indian cutting industry, but also on sales of diamond jewelry at a retail level in India. However, it is worth noting that diamond jewelry is actually doing better than the main economy.

This is not solely a problem of the rupee falling on its own, but is a function of the rupee falling in a bad economic environment. The retail market is now at the beginning of its busy season, which continues throughout Diwali in the month of November.

Over the past 12 months the prices for the very top-quality larger diamonds has fallen, for demand for these ranges from China and India have yet to show a return to the growth that we experienced in previous years. Prices for smaller high-quality diamonds have also been flat, impacted by a destocking in the watch industry particularly aimed at the markets of the Far East. Furthermore, the market for small low-quality diamonds has also fallen.

However, the core commercial diamond market that is in the VS1 to I2 quality ranges remains the focus of the retail growth both in US and China. And a large part of the Diavik and Ekati productions are well suited to fulfill this demand.

I will now pass the call back to Bob Gannicott.

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

Thanks, Jim. The Jay kimberlite pipe is the largest diamond resource in Canada. The pipe has a surface area of 13 hectares, and the open pit to mine a separate section has a planned diameter of 1 kilometer. Although this pit shell has not yet been fully resolved, pending further geotechnical information, it will produce more than 90 million carats over a 10-year period.

The robust scale of the pipe, even at the depths at the bottom of the pit, holds promise for significant further production from a block cave underground operation. The pipe sits 1 kilometer from the shore of a large but shallow lake, Lac du Sauvage, but its development had previously been viewed as requiring a Diavik-style ring dike at a capital cost of around $1 billion.

The recognition of the shallow nature of the lake has inspired a concept of lowering the water level in a section of the lake hosting both the Jay and the small but high-value Cardinal pipes at a significantly lower cost than the ring dike concept. Cardinal has the potential to provide high-value supplementary ore feed during the early but important CapEx retirement period.

Concept engineering work is now being completed, and we expect to submit a Project Description Report to the regulators at the first stage of the permitting process in mid-October. A similar report for the mining of the Lynx Pipe, a precursor to the Jay development, will be filed in the next 2 weeks.

Our exploration joint venture program with North Arrow on the Southwest projection of the structural trend that hosts Jay, Cardinal, Misery, the Lynx Pipes, as well as all of the Diavik Pipes, is ongoing but has already identified a series of diamond indicator mineral anomalies in basal till that have no currently known source.

It will be year-end before all of the laboratory results are in hand, but we foresee a program of follow-up till sample drilling and some geophysics starting in the early spring. Early days for this program, but a good start, for sure.

In conclusion, we have two good assets that are performing before the expectations of their mine plans for this year. The diamond market is responding well to US economic recovery, although moderated for the time being at least by emerging market softness.

We have also already created a viable model for the extension of Ekati for at least a further 10 years of further open-pit mining beyond the current mine plan and the potential for underground mining well beyond that. We look forward to bringing the Jay Pipe engineering and economics up to prefeasibility and, therefore, reserve status level over the coming months.

So thanks for listening to us, and we are now ready to listen to your questions and respond to them.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Oliver Chen, Citigroup.

Oliver Chen - *Citigroup - Analyst*

Hi, guys. Good morning. First of all, regarding your commentary on overall diamond prices year-to-date, plus 6%, how do you think that this will end up through the full year? Do you expect that it is going to move up from here, or soften from here, or stay flattish at this plus 6%?

Jim Pounds - *Dominion Diamond Marketing Corporation - President*

Hi, Oliver. It's Jim here. I think we expect certain weakening of prices in some of the cheaper goods, some of the labor-intensive goods in India. However, I am pretty convinced that we will see a flat pricing with some upturn towards the end of the year, because I feel that retail stocks at the moment are quite low, so we expect a good season.

And then as the season moves the polished through, then the manufacturers will look to restock towards the end of the year to prepare themselves for the forthcoming seasons. So my expectation is flat and my hopes are for a tick-up at the end of the year in pricing.

Oliver Chen - *Citigroup - Analyst*

Thank you. It is encouraging that you guys performed better than mine plans this quarter. Do you expect that trend to continue in the next quarters?

And also, if you could give us any modeling assistance with the gross margin line and the pros and cons for the next couple quarters, so we have a way to model that, that would be great.

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

I think, Oliver, I think we are holding to our guidance for the year. What we like is we have sort of got ourselves a little ahead, which is always, always a good place to be. But I don't think -- we are not shifting the guidance up for the rest of the year. But we do think that we are going to make those plans.

Oliver Chen - *Citigroup - Analyst*

Okay. The final question is, as you switch off the BHP auction method, where should we quantify the upside potential from that and how to think about that in our models? Thanks.

Jim Pounds - *Dominion Diamond Marketing Corporation - President*

I think the upside potential is the fact that we are engaging with retailers, major manufacturers, and many of our smaller manufacturers. So the fact that we will have a lot more goods to present them, be able to focus our sales assortments more to the exact needs of their requirements of their retail manufacturing business, and therefore be able to bind them in, into longer-term deals with us, longer-term contracts, as I mentioned in my speech.

So therefore, with that sort of engagement, indicates that we will be able to keep prices on a solid footing and move them up as the retail business restocks and moves forward into 2014. So I hope that answers your question, Oliver.

Oliver Chen - *Citigroup - Analyst*

Yes, it does. Thank you. Best regards for the holiday season. Thanks.

Operator

James Bender, Deutsche (sic) Bank.

James Bender - *Scotiabank - Analyst*

Hi, everyone. It is actually Scotiabank. I just have a few questions for Wendy; it's on the expense side. For SG&A at Ekati and Corporate, what would you say is the normalized run rate going forward? That is my first question.

Secondly, similar on the accretion for the rehabilitation. I am assuming most of that is Ekati; and what would be a normalized rate there?

And we have seen higher exploration so far year to date. I would just like to note what you are thinking for the whole year in terms of exploration.

Wendy Kei - *Dominion Diamond Corporation - CFO*

Okay. In terms of Ekati SG&A, we foresee it to be the level that we have been reporting at, which is about $1.5 million to $2 million, and that is pretty consistent.

In terms of the Corporate SG&A, in the past we've averaged about $5 million a quarter, which is what we anticipate going forward. This quarter we had the $6 million restructuring in Antwerp in there and slightly other higher costs; but we do see that run rate coming down. It was a nonrecurring -- we had some nonrecurring expenses this quarter that we won't see going forward.

In terms of your question on the accretion, we have $4.5 million expense for both Diavik and Ekati. And that will remain at that level until we update our reclamation liability, and we do that towards the end of the fiscal year. So that run rate should be the run rate for the next two quarters.

Your other one on exploration, we see exploration going up in Q3 as a result of our various exploration programs for both our own claims with North Arrow and our exploration work on Jay. And that amount -- we have come out and said on our own exploration program we will spend for the next couple quarters about $2 million.

And on Jay we've got some additional expenses, yet to be determined, on Jay because there is a lot of work going on there right now. Does that answer your question, James?

James Bender - *Scotiabank - Analyst*

Yes, that's perfect. Thank you very much.

Operator

(Operator Instructions) Richard Hatch, RBC.

Richard Hatch - *RBC Capital Markets - Analyst*

Thanks very much. Morning all. Just a couple of questions. First up, could you give a rough timeline as to the next steps that we could see for Jay? I know you talked to putting something out in October time; but then the following steps after that and any guidance to when we could potentially see first production.

And secondly, and if you are taking Jay forward, does that mean that any returning cash to shareholders is off the table?

Third question, just a question on your Ekati prices for the third and fourth quarter. Is the change in -- will your ore mix change a great deal and therefore drive different prices going to the third and fourth quarter?

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

Okay. I will start off and then we will probably let Jim do that last one. But, Jay developments, first of all, we are aiming to be able to get first production out of Jay by 2020. And I would keep in mind that this is a brownfields project, not a greenfields project.

We are not -- we don't have to permit a new mine here. What we are doing is permitting basically pits number 8 and 9 in a mining project that that will have already completed 7 by the time we get to them.

So the processing plan is there. Tailings disposal is already licensed, etc., etc. And importantly, impact benefit agreements with the local impacted communities are already settled. This is not a process that we have to reopen and do again.

So we are optimistic that we can maintain that timeline. But it does put us in -- we are in a regulatory, public -- there's a public meeting component to this. It is very difficult to actually be extremely accurately predictive of the timelines.

But we think that what we are aiming at, which is to get these permits in hand and complete the earthworks that need to be done to get the pipes to the predevelopment, to release ore by 2020, we do all believe that it is realistic.

The process kicks off, as I alluded to in the talk with a thing called a Project Description, which is really a pretty big document that describes the project in a lot of detail. That is the document that is put forward to get the first set of comments back from the various regulatory bodies.

Those comments are then addressed in a document that is really a remake of the Project Description with like an appendix, if you like, of dealing with those, addressing the concerns that have been raised. This, the process marks on for a few years.

Actually we have with us sitting at the table here Brendan Bell, who looks after community relations and permitting. Brendan didn't say anything specific on the call because he didn't really have anything of that specific nature to say. But, Brendan, can I just ask you to tune in on that one?

Brendan Bell - *Dominion Diamond Holdings Ltd. - President*

Yes. Listen, I think you are right, Bob, in terms of the timing. We are out in communities now, in advance of what you would refer to as the official regulatory process. In advance of that, we're out having community discussions, testing a number of these concepts as we roll out these plans.

We made a pledge or a commitment, if you will, to these communities that we wouldn't come to them when the plan was fully baked. We would come to them early days and often, to communicate and to test-drive some of these ideas. And I think response has been very encouraging and very good.

Will there be some challenges and some concerns that need to be mitigated? Of course, and that is always the case. But we are quite optimistic; and the response from communities and from regulators and from government agencies thus far has been quite encouraging.

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

Obviously, there are several aspects of Jay. Obviously the mining one, developing it as a project. But the impact of it is felt in other ways.

Because we would be shifting production entirely to Jay and Cardinal at that point, it would leave us the option of putting tailings or processed kimberlite into the open pits that have been excavated at Panda, Koala, Koala North, where there is a lot of volume capacity. That would mean that we would be able to shut down the current surface tailings management facility and be able to begin reclamation of that.

So it has a positive impact, potentially a positive impact on reclamation costs as well as the timeline of the project. Because, of course, it would bring a bunch of new reserves into the balance sheet it will then extend the amortization periods and so on, which is going to be very helpful to that, as well as the allowances Wendy has to make to pay for reclamation costs as well.

So there is a lot of different aspects to it. You should also keep in mind that our ownership of Jay, which is in the Buffer Zone, is slightly less than -- well, it's more than -- between 50% and 60%; I can't remember the exact percentage.

Wendy Kei - *Dominion Diamond Corporation - CFO*

58.8%.

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

Sorry, Wendy?

Wendy Kei - *Dominion Diamond Corporation - CFO*

58.8%.

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

58.5%; so we own almost 60% of it. But the point is, 40% of the costs are the responsibility of the other partners.

So your question about the impact on returning cash to shareholders, Jay is one of the aspects of that; we need to get a much better handle on exactly what the capital -- not just what the overall capital costs will be but what the spending schedule is. In other words, the development schedule.

For instance, one thing I know already is that we are going to need obviously quite a serious fleet of large polished trucks and the loaders that go with them, because there is almost a year lead time on those for delivery. We're going to be having to deal with that probably in 2015, for example.

So the spend schedule on Jay and also how the government is going to treat us with respect to reclamation bonds, both our share of our 40% share of Diavik and our 80% share of Ekati, so that until we have got clear visibility on all of that, then we can't really start thinking about what we do about returning cash to shareholders. But we're certainly not going to just sit on cash.

I'm sure you are aware of that. Nobody does that these days. We will return it one way or the other, share buyback programs or dividend or whatever.

But we need to have confidence in our economic forecast going forward through the Jay development. Jim, there was a part that you were going to respond to.

Jim Pounds - *Dominion Diamond Marketing Corporation - President*

Yes. Sorry, Richard, could you just remind me of the second part of your question?

Richard Hatch - *RBC Capital Markets - Analyst*

Yes, Jim. I just was interested to know, with your mine plans for Ekati in the third and fourth quarters, just wondering how the ore mix might drive the realized price.

Jim Pounds - *Dominion Diamond Marketing Corporation - President*

Well, of course, during the third and fourth quarters we see some of the Misery production coming in. So Misery as we all know is at a lower price than the Fox in particular, which has been driving much of the production in the first two quarters. So we will see a change in the marketing mix and a fall in the overall average price.

But one of the great things about the Misery production is that it was sold before, and people are quite used to it, and there is a lot of similarities in that production between our Diavik goods. So the manufacturers, they are very much used to these sort of goods, already lined up and waiting to buy these goods.

So although, yes, the average price will fall as we get more goods -- and I emphasize more goods, because that production looks very positive, as Chantal said -- so we are well prepared to handle these goods and maximize the price on them.

Richard Hatch - *RBC Capital Markets - Analyst*

Thank you very much, all.

Operator

(Operator Instructions)[Brian Agnew], Caris.

Brian Agnew - *Caris & Company - Analyst*

Good morning. Can you hear me?

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

Yes, hi, Brian. Yes.

Brian Agnew - *Caris & Company - Analyst*

Morning, everybody. Lots of questions. I guess the first part of it is going to revolve around, I guess, the capital structure of the Company. Now that you have retired the short-term financing that was intended for Ekati and paid, I guess, $12 million to do so, just curious. Thoughts on the longer-term financing plans for the Company to the extent that you can discuss that, that is part one.

Part two is CapEx for the remainder of this year and next year, excluding any CapEx associated with the Jay investment.

And, Bob, I know it is tough, but the third part of my question is, if Jay is not till really 2020 when we start taking diamonds out of the ground, to the extent that you can really frame up a little bit better the CapEx phasing would be certainly helpful. Because it is a long way away, and to be sitting on this much cash, and to hold it to invest in something that is 7 years away seems fairly unrealistic.

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

Yes, I don't know. Well, it would be if it were the case. But the cash, for starts, there is $120 million odd that is parked against a letter of credit that.

The existing Ekati reclamation bond I think is $126 million; and in order to have a letter of credit to provide to the government for that, we have to park cash against it. So that cash is committed and we can't -- it is not accessible to us.

There is about $120 million, maybe slightly $1 million or $2 million less than that, that actually sits within Ekati. In other words, within the company that we have the 80% ownership of and the other two partners have 20% ownership of. And of course, that is what is used for dealing with capital expenditures and so on at the moment.

So when you remove all of that, the amount of cash that we have is certainly comfortable but it is not exactly a huge war chest, especially in the light of the fact that we know that the reclamation bond for Ekati is going to be raised. We don't yet know to what level.

We also know that at Diavik the two individual partners, ourselves and Rio Tinto, in the near future are going to be required to put up their own share of the cash rather than a letter of credit that was basically secured by Rio Tinto's other assets and we simply paid a fee on it. We are now going to have to put up the cash amount.

So until we have got clear visibility on that, we really don't know how much cash we have available to us. But we certainly expect that clarity to return at some point.

Capital requirements over the next year? I think, Wendy -- well, Wendy, why don't you --?

Wendy Kei - *Dominion Diamond Corporation - CFO*

Okay. We have actually disclosed for Diavik that we will have CapEx for this year of $26 million. On the Ekati side, it is $85 million; and of that $85 million we have earmarked $40 million for Misery construction and the other $45 million as other or other sustaining.

So the biggest chunk of the Ekati CapEx this year will be for Misery, and Misery capital expenditure will continue into fiscal 2015.

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

I think next year's CapEx for Misery is about $70 million, didn't you say?

Wendy Kei - *Dominion Diamond Corporation - CFO*

That's correct.

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

Yes. And for Diavik, do we know?

Wendy Kei - *Dominion Diamond Corporation - CFO*

Not yet.

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

We've got a new mine plan being delivered by the end of October/November, so you can see there is a lack of visibility there, too.

On the Jay side, we don't really have anything that could be called a capital cost estimate at all yet. But put it this way; we are kind of looking at something on the order of $600 million, but there will be some other costs that go on there like the pre-stripping costs and so on that get added onto that.

When does that expenditure start? It probably starts in a big way with the purchase of -- or at least the commitment to purchase, commitment for delivery of the rough haulage fleet, because that is needed for road construction and so on.

Brian Agnew - *Caris & Company - Analyst*

Bob, just quickly, if I --

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

(multiple speakers) 2015.

Brian Agnew - *Caris & Company - Analyst*

Bob, just quickly, the $600 million, that is your 60% share? Or that is the $600 million in aggregate CapEx?

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

No, that is aggregate CapEx, but I mean don't treat that as a capital estimate. You asked me to throw out a number, and I did, but it doesn't --

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Brian Agnew - *Caris & Company - Analyst*

I understand.

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

There is other things to be included in that as well.

Brian Agnew - *Caris & Company - Analyst*

I mean if you could get to that number, that certainly would be fantastic. Okay. And, Wendy, the more permanent capital (multiple speakers)?

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

Can I just make the point on your use of cash? The bulk of the rest of the interest is owned in another public company, which is really almost -- well, it is certainly controlled by Stu Blusson.

And whether or not -- in other words, we're not really able to predict whether they can raise the capital for the project. So like any other major partner, we are going to -- as we make commitments on making purchases and so on, we're going to have to plan to be there for 100% of the commitment in case they don't -- they are not able to follow. You see what I mean?

Brian Agnew - *Caris & Company - Analyst*

No, look, Bob, we have talked about this before. But I think our view is, to the extent that this plan gets approval and you are able to move forward, we have always viewed it as a separate distinct event where there will be plenty of financing if you can CapEx Jay at $600 million based on 90 million carats in the ground. I am not worried about financing that. But totally understood.

Then, Wendy, longer-term capital financing structure, thought process for the Company now with the removal of the term loan facility for Ekati?

Wendy Kei - *Dominion Diamond Corporation - CFO*

As Chantal mentioned, we are going to redo the Ekati Mine Plan based on our fiscal year and take a look at the Diavik Mine Plan as well. That is due to come out to us in the fall, and we will come up with a plan based on that.

But right now with Chantal being in the role for the last 2 months we have got to revisit a lot of our long-term forecasting. Okay?

Brian Agnew - *Caris & Company - Analyst*

Bob, just to conclude, I guess the key is, after you have more detail on Jay towards the back half of this year, you would be amenable to revisiting the capital return to shareholders. Is that fair?

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

Yes, we will certainly look at it. But there is one thing that you have left off there, which is what the government are going to do with respect to reclamation bond requirements.

Brian Agnew - *Caris & Company - Analyst*

Understood. Will you have clarity on that by the end of the year?

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

Yes. Yes, definitely.

Brian Agnew - *Caris & Company - Analyst*

That's it for me. Thanks, guys.

Operator

There are no remaining audio questions in queue. I would now like to turn the call back over to Mr. Robert Gannicott for closing remarks.

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

Well, the only closing remarks I think would be we are very pleased with the position that we are in. These mines are performing well.

I think you've heard me say it before, but we [pulled] Ekati on the basis that it basically, as I put it before, washes its own face for the next 2 years. In other words, the revenue that we take out of the ground covers the operating costs and contributes to capital cost programs at Misery and to a more limited extent at Jay, prefeasibility work at Jay.

The big pulse of earnings come through Misery, comes through at full production, which is in calendar '16 and '17 is the big pulse of that. And that is where we have always calculated on the basis of our purchase that with that Misery pulse, as it were, if we weren't doing Jay, if Jay cannot be permitted, if it is too expensive, whatever, if it doesn't get done, we make a return on our investment firm that pulse of earnings in calendar '16 and '17.

But of course, what the real prize here is, is the ability to do Jay. I think an obvious question is -- well, if it is attractive for us to do Jay, why wasn't it attractive to BHP? Frankly, I think it is as simple as BHP didn't recognize that Lac de Sauvage was an unusually shallow lake.

I had actually camped on Lac de Sauvage in 1992 and '93. And flying over it every day in a helicopter, you could actually see the bottom of the lake virtually everywhere you flew, whereas that is not the case for Lac de Gras or the other lakes around here. So that is why we think we are able to do it, why it sort of went through BHP's net, as it were.

So that is what we are really here for, is the future that is provided by Jay. But if Jay isn't there, well, we still get our money back and some change.

Thanks very much for listening to us all and we look forward to bringing you lots more information on this over the coming quarters.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.