

Diamori Ltd.
#199, 10155 – 102 St.
Edmonton, AB
T5J 4G8
Canada
Ph: (780) 420-1608
Fax: (780) 420-1728
email: diamori@planet.eon.net

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Johanne D'Auray
1-819-953-4792

Re: Industry Canada Diamond Origin Debate

- 1) This is NOT an abortion debate. Diamonds came into being millions of years ago, and countries lucky enough to locate them within their borders earn wealth simply by the good fortune of their geology.
 - 2) Consumers perceive the terms "Diamond of Canada" and "Canadian Diamond" to mean a diamond mined from Canadian earth. This stems from awareness of the recent discovery of diamonds in Canadian soil.
 - 3) Since our affiliate (Polar Star Diamonds Ltd.) locally cuts diamonds which have been purchased abroad from foreign mines and market them as "Canadian-Cut Diamonds," we are well-aware that consumers looking for "Canadian Diamonds" want a stone which came from the highly publicized Northern Canadian mines. We have a difficult time selling these consumers our Canadian-Cut stones. Unless they are specifically looking for the "Polar Bear" branded diamonds, they are easily sold a Regal "Maple Leaf" diamond with the knowledge that it was cut overseas.
- Sony didn't take action against competitors who produced portable cassette stereos, even though they spent \$Millions in marketing their "Walkman." Sony created the demand, and Sanyo just put a similar product on the shelf next to it. The public often refer to the Sanyo counterpart as a "walkman", but Sanyo never had to use that term to create the association. Regal has found a way to supply Canadian mined diamonds at a competitive price to take advantage of the hype of Canadian diamond mining and the advertising of Sirius Diamonds.
- 4) Industry practice is divided between naming stones for their country of origin and naming for the location of cutting.

Regarding Colored Stones: Columbian Emerald, Ceylon Sapphire and Burma Ruby are renown for their unique properties as compared to emeralds, sapphires and rubies from other origins. No discussion is had as to where those stones were cut. Only trade buyers are concerned whether the stones are "native cut" meaning cut in the country of origin (implying a poorer grade of cut) or cut in a factory of more highly skilled lapidaries.

Regarding Diamonds: Diamonds are often sold in mixed parcels with no regard for their country of origin. The country in which they are cut sometimes is important information to the trade. If they are Israelie-cut diamonds or Belgian-cut it implies a certain level of precision. Indian-cut diamonds are often cut in high volume and less renown for precision. Russian-cut diamonds used to imply a high quality of faceting and certain proportions, and the fame of the "Russian-Cut" diamond helped move Russian mined diamonds. The fame of Canadian cutters (as a whole) has not made a permanent impression on the international market as of yet.

More and more importance is being put on diamond origin due to political circumstances. In the late 80s, we had clients asking if the diamond they were considering purchasing was from South Africa. Today we have less concern over conflict diamonds from Congo and Sierra Leone. Unlike most colored gemstones, the country of origin is impossible to determine after a stone is faceted. Back in the 80s, we were not able to answer the question of origin. Now the industry led by DeBeers, the World Diamond Council and the Gemological Institute of America are all seeking ways to ensure that current "conflict diamonds" are identified and/or avoided through policy and codes of ethic. This along with branded diamonds from known sources makes it possible to answer that question.

At some point it falls upon the distributors to sell diamonds on the merits of their "unique selling proposition." For Sirius Diamonds, it is that their "Polar Bear Diamonds" are Canadian mined, cut and distributed. For Regal Imports it means competitive finished stones from the Canadian mines. For our own Polar Star Diamonds, it means that our diamonds were cut locally for optimum quality control.

The debate comes down to a singular compelling concern on the part of Sirius Diamonds. Because it is impossible to determine the country of origin of a faceted diamond and rough diamonds only give minor hints as to their country of origin, importers of Canadian rough processed overseas cannot verify Canadian origin.

Sirius Diamonds import finished diamonds from overseas to compliment their selection of Canadian diamonds. It then falls upon Sirius to display the same level of integrity in marketing their certified stones as "Canadian" as it does for Regal Imports who import finished diamonds of both Canadian and foreign origin. Keep in mind that currently Sirius Diamonds and Regal Imports both issue certificates of origin with their Canadian diamonds. Should either company be found guilty of selling a falsely pedigreed stone, or if it is found that their sales of "Canadian Diamonds" exceeds their purchase of Canadian rough, all of their certificates would come under suspicion and they would open themselves up to a huge class-action lawsuit.

No governing body can follow an individual stone from mine to consumer! The first method for Industry Canada (or the appropriate regulatory body) to use in determining that a diamond distributor is marketing truly Canadian-mined stones is to audit the purchase of rough Canadian diamonds and rough foreign diamonds; then compare that ratio to their finished-stone inventory. The second is by auditing the manufacturers tracking procedures from purchase to sale to verify that only

Canadian rough gets processed and imprinted with Canadian identification. Due to the potential importance of the Canadian diamond industry, the government (who effectively own the trademark, "Canadian") must create stiff penalties for misrepresentation of foreign diamonds as "Canadian."

In the jewellery trade, "Industry Canada's" guidelines have never been effectively enforced. Discount jewellers still sell items at 60% off all year long, and fail to disclose cosmetic treatments to gemstones. Should the Canadian Diamond debate elevate to the legal sphere, a "Diamond Marketing Board" will be required to monitor and enforce the practical results of this consultation.

I hope these thoughts assist you in this challenging task! Should a task-force be struck to take this consultation to the next level, I would be willing to assist or to make recommendations.

<paperless fax – treat as signed>

Todd Wasylyshyn
Fellow of the Canadian Gemmological Association
Manager

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