

**MINISTER'S TRIP REPORT
JANUARY 5 - 9, 1998
LONDON - ANTWERP**



PURPOSE:

To meet with diamantaries who have or may have significant roles to play in the developing diamond industry in the NWT and Canada. These included companies and individuals who are consultants for BHP Diamonds, Diavik and Aber Resources, the Central Selling Organisation (CSO), and potential Government Diamond Valuers.

KEY ISSUES DISCUSSED:

- 1) Government Valuation - how to ensure that it is properly carried out?
- 2) Sorting for Market - is it feasible in the NWT? If so how much?
- 3) Rough Diamond Sales in the NWT - are sales from the NWT possible? Who would buy?
- 4) Diamond Manufacturing - What economic factors are critical to promote the development of manufacturing in the NWT?
- 5) Security issues - is legislation required?

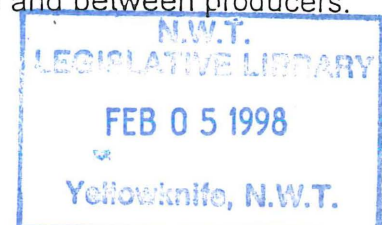
DISCUSSIONS:

A variety of perspectives were obtained during the various discussions and meetings. Each diamantaries brought their own background, knowledge, approach and opinions to the issues. However a number of common understandings and concerns became apparent.

Government Valuation

The valuation of diamonds is not a science, it is subjective. Regardless of the level of sorting, or of the marketing strategy of the producer, Government Valuation involves a degree of negotiation. Even if a fixed price exists for a particular shape, size, colour and quality of diamond, such as in the Central Selling Organisation system, the colour, shape and quality of each stone is subjective. As such, the Government must not be disadvantaged in any way by the process or by the location of the process. The Government Valuation must take place off mine site.

While the process of Government Valuation has limited impact on value added or employment, it is of critical importance in the assessment of royalties and taxes. While the marketing strategy of an individual producer will impact on the degree of level of sorting the producer will wish to do, the marketing strategy should not dictate the process of Government Valuation. Marketing strategies change over time and between producers.



While the most accurate means of calculating royalties is certainly based on sales, some diamantaires questioned the ability, and authority of the Canadian government to track and audit the sale of diamonds, a unique commodity of small size, high subjective value and unique marketing system throughout the world.

A full and detailed sorting of the diamonds will ensure that the government has as complete a knowledge and understanding as possible of the value of the diamonds. This sort should occur regardless of the marketing strategy that the producer is using at that time.

Sorting for Market

Most diamantaries we met with agreed that a substantial percentage of the sorting required for market, could be done in the NWT. The degree of sorting differed, but it was accepted that some sorting for market could, and should be done in the jurisdiction.

Rough Diamond Sales

In general, the availability of rough in the NWT was a key factor in any discussion on the development of a diamond industry in the NWT. While some diamantaries felt that the rough not only had to be available, but had to be below world price, others felt that a reliable, good quality supply was more important.

Other diamantaries did not feel that they would travel to the NWT to purchase rough diamonds. Several did state that they would consider it, but in the longer term, when rough from more than one producer was available.

Manufacturing

Almost all manufacturers felt that if manufacturing was economic in Canada it would already exist. They identified several factors as key to the development of an industry. While there was some consistency in the factors, the priority of the factors varied between potential manufacturers.

- 1) reliable supply of rough: a steady, constant supply of rough must be available for the manufacturing facility.
- 2) financing for rough purchases: a rolling line of credit must be available to allow manufacturing to purchase the rough. The rough itself is the collateral for the loan.
- 3) funding for training local workers: between 1 and 3 years of experience is required to train a worker. During this time, the worker does not contribute towards the financial success of the facility.
- 4) tax free zone: taxes and regulations can form considerable barriers to importing, manufacturing and exporting of diamonds, in part due to their high value.

All diamantaries agreed that the NWT is not going to compete with India or South East Asia for the manufacturing of small stones. However most felt that there were certain sizes and shapes of diamonds that could be economically cut in the NWT.

There was generally support for the possibility of "branding" diamonds from the NWT. There are potential markets for diamonds mined and manufactured in the NWT, which could support a manufacturing industry in the NWT.

Security

At every meeting we attended, concern was expressed over the potential security issues surrounding diamonds. No other commodity is as small, as easy to conceal, as high in value, yet as subjective in value. Every other significant diamond mining jurisdiction has specific legislation that addresses security concerns that arise around the world within the industry. There is no reason to believe that Canada will be any different. This concern was raised by almost everyone with whom we met.

Security is not only a concern in the mining of diamonds, but in the sorting, selling and manufacturing of diamonds as well. A system that protects workers, dealers, cutters and the consumer must be established.

CONCLUSION:

This trip allowed us an opportunity to discuss in detail our concerns, and our aspirations directly with diamond valuers, dealers and manufacturers. We had an opportunity to meet with individuals whose advice and input has been used by the federal government in the development of their positions and policies.

In summary, Government Valuation must include a full and detailed sort off mine site. Sales of rough in the NWT are feasible as is the development of a manufacturing industry. Security will be an on going concern at all levels in the industry.

The GNWT will continue to work with the Task Force on Diamonds in order to address a number of the above issues. We will also continue to work with BHP and potential future producers to address our concerns, and ensure the maximum benefits for the NWT are realized.

LONDON / ANTWERP

January 5 - 9, 1998

Participants:

Minister Stephen Kakfwi
~~Minister John Todd~~ David Connelly - Pres. Chamber of Mines
Deputy Minister Joe Handley RWED
Lynda Sorenson - EA
Martin Irving - Director RWED (responsible for the diamond file)

LONDON

Hotel Inter-Continental
1 Hamilton Place
ph: 44-171-409-3131
fax: 44-171-493-3476

- A) Monday Jan 5: 10:00 AM - 4:00 PM
Central Selling Organisation (CSO)
17 Charterhouse Street, London
- general information on diamond industry, marketing
- visit to sorting house
- lunch at the CSO
- B) Monday Jan 5: 4:00 PM - 6:00 PM
Martyn Marriott / Milos Vanier
Diamond Counsellors International
15 Greville Street, London
- discussion on valuation process, role of government valuator
- dinner at Martyn Marriott's house
- C) Tuesday Jan 6: 10:00 AM - 11:00 AM
Richard Wake-Walker / Charles Wyndham
WWW Diamond Consultants Ltd.
- meeting at our hotel
- discussion on valuation process, role of government valuator
- development of the cutting industry in Russia, what is realistic in Canada?
- D) Tuesday Jan 6 : afternoon fly to Antwerp
Flight from London City Airport on Sabena Airways at 2:30 PM

December 22, 1997

ANTWERP

Hotel Carleton

Quinten Matsijslei 25

ph: 32 03 231 1515

fax: 32 03 225 3090

E) Wednesday Jan 7: 10:00 AM - 12:00 PM

David Elliot

Diamond Tenders Ltd

Pelikaanstraat 92, 4th floor

ph 231 1506 / fax 232 7081

- tendering process for selling diamonds

- Lunch may not be possible: have to confirm that week.

Wednesday Jan 7 : afternoon off

F) Wednesday Jan 7: 5:00 PM -

Davy Lapa

Overseas Diamonds

A.D.C Building, Suite 803

2 Hoveniersstraat

ph 234 3014 / fax 234 1517

- consultant to Aber Resources

- selling diamonds, what can be done in Canada

- dinner with Mr. Lapa

Thursday AM: Joe Handley departs for Canada

G) Thursday Jan 8: 10:00 AM - 12:00 PM

Argyle Diamonds

Lange Herentalsestraat 62/70

ph 205 6820 / fax 205 6859

- selling office for Argyle Diamond mine

*8am - 10am Tour of diamond
polishing factory
(includes cutting
& polishing)*

H) Thursday Jan 8: 2:00 PM - 4:00 PM

Isi and Daniel Horowitz

IDH Diamonds

Schupstraat 9/11

ph 233 0811 / fax 233 2035

- consultants to BHP

- sorting process, selling process, general market information

12 Noon lunch with Doug Wilby

December 22, 1997

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I) Thursday Jan 8: 4:00 PM - 5:00 PM
Terry Janes
Manager - BHP Diamonds
Schupstraat 9/11 Box 113
ph 213 08 45 / fax 213 08 46

Thursday January 8: Dinner
Argyle Diamonds has invited the delegation for dinner.

Friday AM: Minister Kakfwi returns to London
Martin Irving stays in Antwerp

J) Friday Jan 9: 11:00 AM - 12:00
Jack Lunzer and Geoffery Leggett
IDC Holdings
86 Hatton Gardens, London
ph: 171 242-5303 / fax: 171 242-9406

December 22, 1997