

SPENCE



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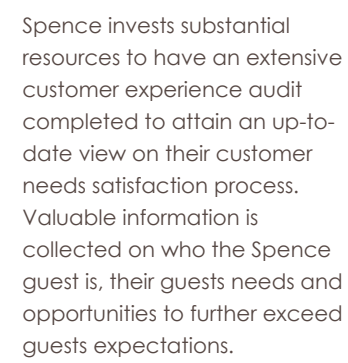
SPENCE DIAMONDS' VISION

Uplifting people to be more
successful than ever before.

Wisdom #19: "The most important thing a father
can do for his children is to love their mother." Henry
Ward Beecher

Wisdom #27: "No matter how cool you think they
are, do not wear high tops to the wedding."

Wisdom #44: "Fashionably late does not apply to
your wedding day."





COMPANY PROFILE



CUSTOMER QUOTE

"I originally expected to have to shop around for an engagement ring, and though I briefly browsed around at other stores while passing them, I knew I wanted to make a trip to Spence because of your clever advertising (specifically radio ads on 102.1 The Edge). When I arrived at Spence to look at rings, I was surprised by the decidedly different approach to customer service. I was greeted warmly, shown to the engagement ring section, and a diamond expert soon came to my service to help me find my (soon to be) Fiancé's ring. Habib did an amazing job explaining how diamonds are graded, and I

truly felt at ease and informed when making my decision. He didn't try to pressure me into spending more money and he even went as far as to explain why, with my design choices, the more expensive options were actually not going to produce noticeably better results. Your radio ads set my expectations quite high, and I worried that I was going to be disappointed. I can gladly say that my expectations were exceeded and I am very happy with the service I received, and the beautiful ring I will be soon presenting to my girlfriend. Thank you!"

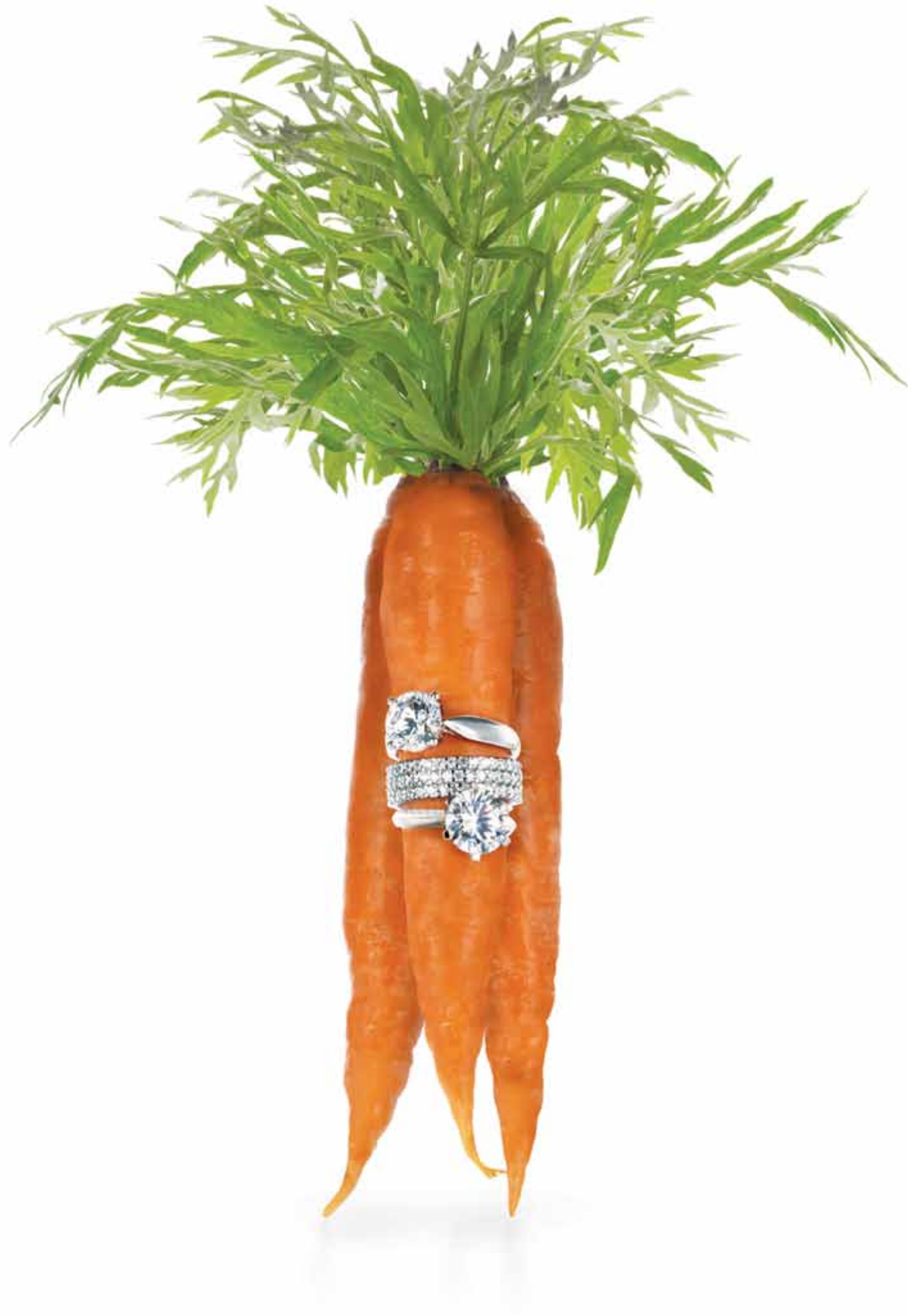


COMPANY LOCATIONS

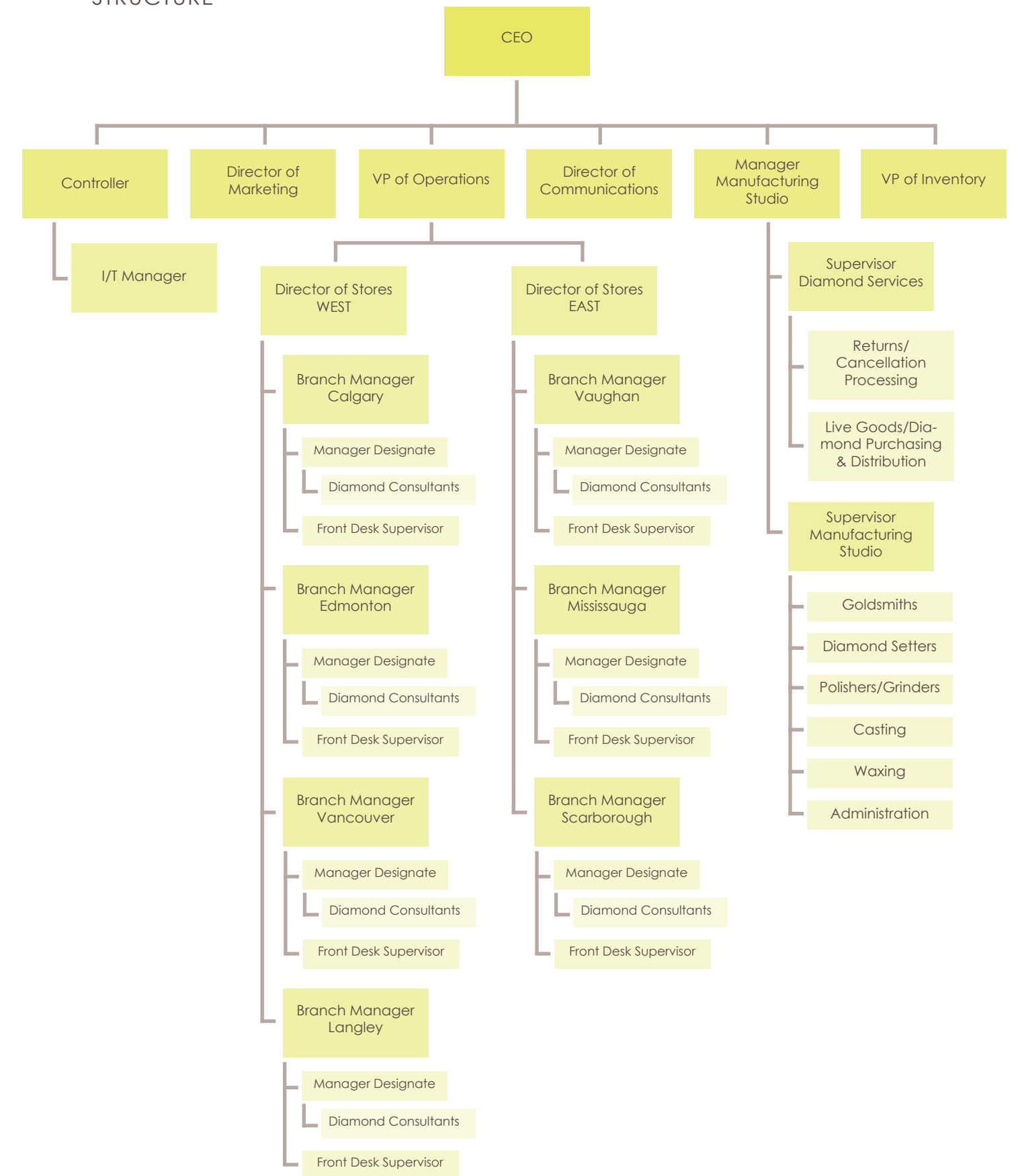
Vancouver | 101-888 Burrard Street, Vancouver, BC
Calgary | 100-6700 MacLeod Trail South East, Calgary, AB
Edmonton | 17010-90 Avenue, Edmonton, AB
Langley | 20055 Langley Bypass, Langley, BC
Vaughan | 31 Famous Avenue, Vaughan, ON
Scarborough | Unit D6B – 410 Progress Avenue, Scarborough, ON
Mississauga | 25 Square 1 Drive, Mississauga, ON

OUR VISION

*Uplifting people to be more
successful than ever before.*



ORGANIZATIONAL STRUCTURE





STRATEGY

Business Overview

Proudly a Canadian owned and operated business since 1978, Spence Diamonds Ltd (Spence) is a highly specialized, vertically integrated diamond jeweller operation. Via a commitment to customer centric operational excellence, with mass customization competencies, Spence has a proven track record of year on year sales and profitability growth. Spence is a leading industry innovator with a unique business model that blends the competencies of providing exceptional customer service, an extensive selection and top quality diamonds. Based in Vancouver, BC, retail operations span across BC, Alberta and Ontario. Spence is the fourth largest jeweller in Canada and the largest Canadian-owned retailer of diamond jewelry.

Derived from a core belief in creating an environment of success for all stakeholders, the organization habitually seeks out external

successful resources, works to create a synergistic alliance and learns from their best practices. Through the active ongoing collaboration with Harvard Professor Frances Frei, a world revered expert on service excellence; Chip Wilson, Founder of lululemon; Rhoda Pitcher, expert in building executive capability; and various additional resources, the Spence Senior Leadership Team (SLT) is committed to continuously learning from this significant knowledge pool.

Amidst the challenging economic climate, the SLT assessed their business model, with integrity and honesty, to attain an authentic picture of the overall health of the organization as it relates to the customer. Recognizing strong management infrastructure was needed to support the existing 11 locations in 2010, inclusive of the purchase of a major American jewelry player in 2009 in Houston,

the SLT closed a location in Toronto and sold their USA operations in 2010. Hired on to quickly build the business in 2008, the President was also let go in late 2010, as growth did not materialize. Well before the economic downturn, the Spence business model was crafted to be extremely efficient, with a very lean infrastructure, to maximize opportunities for customers and team members. Spence proudly reported no layoffs or wage roll backs through 2009-2011. As a result of making these strategic decisions, while experiencing flat line sales growth, Spence increased their EBITDA by 8.9% in 2011, over 2010. Moving forward and building on these tactical decisions, the organization is passionately focused on building their leadership team to reach a position of overcapacity in management strength to prepare for future sustainable growth.

Communication of the Strategic Plan is disseminated via a disciplined rhythm of meetings. During Quarterly and weekly Tuesday Morning SLT meetings, the company's vision and annual goals are discussed. Weekly one hour One on One sessions are held to provide support in the mastery of personal and professional goals, and to empower each individual with the opportunity to create a future of their own design.



TYPICAL COMPETITIVE BUSINESS MODEL



SPENCE DIAMONDS BUSINESS MODEL





STRATEGY

Strategic Differentiators

Spence practices a disciplined commitment to purchase only the highest quality polished diamonds. As the only Canadian jeweller to utilize a diamond trading office in the diamond capital of Antwerp, Belgium, Spence purchases only 0.28% of all diamonds presented. Over 80% of the handmade pieces sold are designed and manufactured in the 5000 sq.ft. Design Studio located in the Vancouver head office. Mass customization competencies are achieved by this extensive vertical integration, and control of 93% of the buying, production and distribution process. By eliminating three levels of middleman profit, Spence is able to provide their guests with top quality diamonds at unrivalled prices. All Spence diamonds are non-conflict diamonds. Spence only purchases from accredited suppliers, whom comply with the United Nation's regulations. Spence has also expanded its product line to include diamond pendants, earrings and anniversary rings. These live goods account for approx. 15% of total sales.

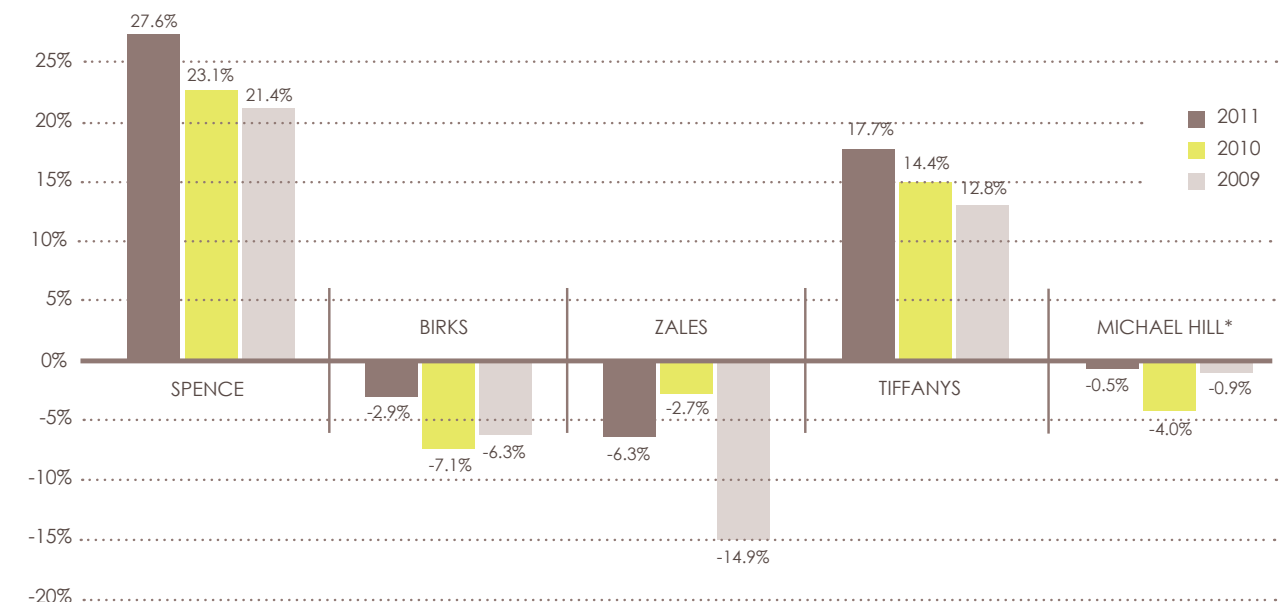
The essence of the Spence experience is a

customer need satisfaction process delivered by the highest paid DCA and GIA certified professional consultants in the business. All showrooms have 3200+ designer prototypes, labelled with prices, displayed in open showcases to promote active browsing. Through the use of designer prototypes, Spence is able to offer guests a selection ten times greater than other jewellers. With this unconventional merchandising approach, Spence is able to enjoy 30% of the typical jewelry store inventory costs and 3.5 times the industry average of inventory turnover rates. Since customers are able to browse at their leisure amongst the open showcases, sales and payroll costs are concentrated on a small number of consultants, greatly reducing staffing requirements. Each consultant generates \$1.5 million in sales/year, which is substantially more than the average annual sales for an entire location amongst the competition. Spence's total payroll costs of 12% of sales, compares favourably to 20% in traditional jewelry stores.

Employing a category killer approach, Spence creates store traffic via building large destination outlets – ranging from 5000 to 8000 sq.ft./store – and a strong media advertising campaign, versus incurring high occupancy costs in mall retail outlets. The organization's philosophy is to geographically have one location per 1.5 million in population. Spence collaborates with industry leading designers, such as internally recognized award-winning design firm Burdiflek, to build state-of-the-art store environments.

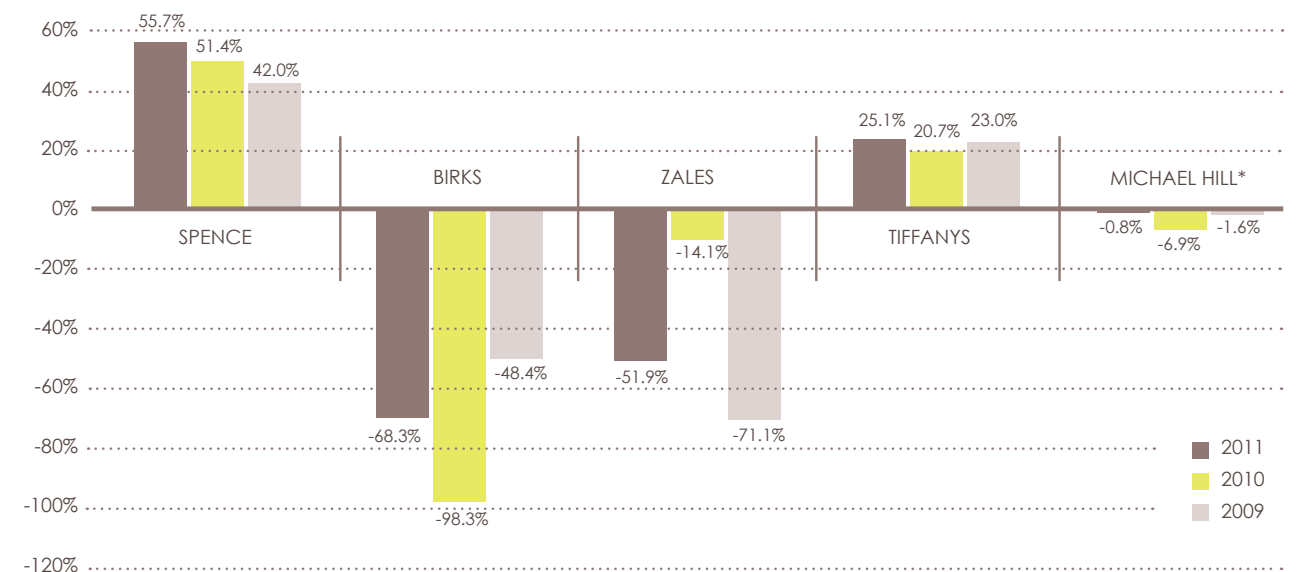
Spence is committed to giving back to the communities in which they live and work. With a focus on making a difference in children's lives, Spence has donated \$886,285 from 2007-2011 to various children's charities and communities around the world. For example, to support a community in a diamond producing country, Spence donated \$66,200 to the reconstruction of Bumpo High School in Sierra Leone, West Africa.

ROI COMPETITIVE ANALYSIS | 2009 THROUGH 2011



*Michael Hill Canadian Results

GROSS PROFIT MARGIN COMPETITIVE ANALYSIS | 2009 THROUGH 2011



*Michael Hill Canadian Results



CAPABILITY

Building a Customer Focused Approach to Sales & Marketing

Spence boasts the highest referral business percentage in the industry at approx. 40%. Although scripts tend to be associated with lower-wage entry level industries, Spence has revealed the power of writing dialogue for the industry's top talent, with their certified consultants' being 6 six times more likely to be effective when following the 70 page Spence customer experience guide. The entire process is designed, with scientific precision, to help the customer feel confident and comfortable during every step of the buying process. Spence reduces the engagement ring buyer's anxiety with a friendly and accessible atmosphere, open cabinets filled with thousands of prototypes that the client can touch and feel, a personalized education on the basics of diamond grading and interaction with a friendly consultant who knows exactly the right words to say, at exactly the right time. With over 30 years of best practices from assessing interactions with over 1.5 million customers, the unique Spence process drives the company's referral business.

Truly knowing their guests and understanding how to exceed their expectations is an integral portion of the Spence formula. In

2006, Spence partnered with an industry leading customer experience design firm, and invested immense resources into a 6 month comprehensive customer experience audit. Every detail of the customer experience was assessed and in-depth interviews were held with clients. Valuable knowledge on the essence of each customer and their high regard for the Spence experience was collected.

Sales metrics and benchmarks are also analyzed daily. Store data is captured on a real time basis, and reviewed at weekly Tuesday Morning Management Meetings, One on Ones and Daily Morning Meetings. Benchmarks have been set for key metrics that drive the business, such as customer counts and presentation percentage. The Spence reporting process also includes a review of each of the consultants individual activities.

In 2003, Spence sought out the expertise of advertising expert, Roy Williams, whom works with Fortune 500 companies such as Procter & Gamble and Hewlett Packard. Collaborating with Roy, Spence launched a

SPENCE COMPONENTS:

We believe all three of these components work together to create the Spence experience. If we create an environment that only delivers two, we are at parity with our competitors.

SELECTION ●

"You come to Spence because they have so many styles and they let you touch and try on all the rings."

SERVICE ●

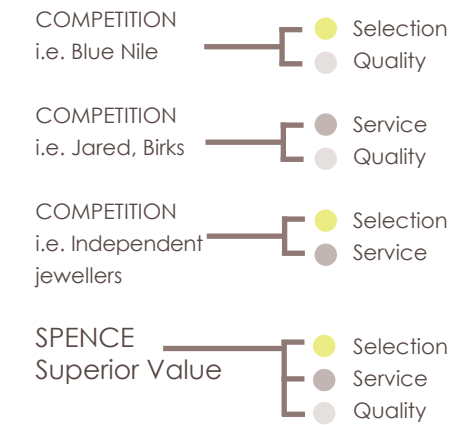
The sales people are friendly, they give you space, but they are right there when you need them."

I consider [the sales associate] a good friend."

QUALITY EDUCATION ●

"Spence taught me everything I needed to know to be an informed diamond buyer. Once they took me through the presentation I felt I could tell the difference between the cheap diamonds and quality diamonds."

THE SPENCE VALUE



SELECTION & SERVICE

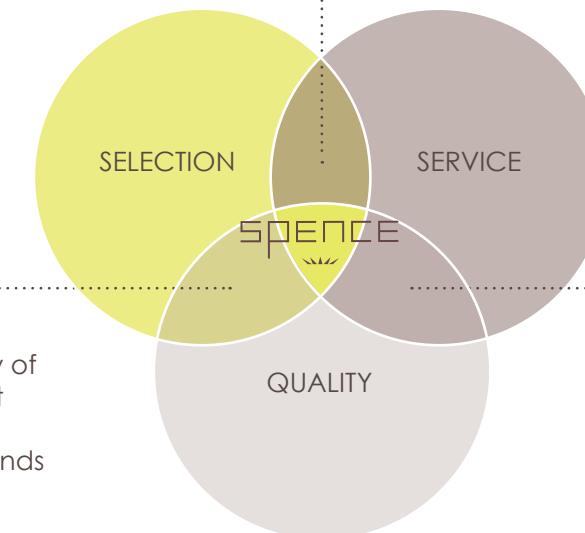
If we simply offer a wide selection and are nice, without our diamond presentation and quality diamonds, smaller custom jewellers win with their ability to spend time with customers and create a one of a kind ring.

SELECTION & QUALITY

If we offer a wide variety of quality products, without great service, Blue Nile's large selection of diamonds will appear as a better choice.

SERVICE & QUALITY

If we are customer focused and quality driven, without offering a broad selection, we will lose our competitive advantage over other quality jewellers, like Birks and Tiffany's.



high impact, strategic radio advertising campaign that increased sales by 30%. Spence annually invests 7-10% of total sales to advertising – double the percentage of a typical retail chain. Approx. 60% of customers have stated the effectiveness of the radio ads is their reason for shopping at Spence. The radio ads have been carefully constructed to attain high audience awareness and to speak to the essence of the Spence brand (use of the CEO's voice in a witty, approachable way). For example, in December of 2010, Spence launched a holiday promotion of a pendant called the Hercules Knot. Communication of this promotion was only conducted via radio ads. Live good sales increased by \$800,000 in just 3 weeks, directly from the sale of the \$199 pendant.





CAPABILITY

Capitalizing on the Use of Technology Solutions

A defining element of the Spence experience is the educational approach to build consumer confidence during their buying experience. Once a guest selects a ring design, a consultant invites the guest into one of the multiple Diamond Education Labs for the Spence Diamond Presentation. In direct contrast to industry practices, extremely high standard diamond grading instruments are used to educate every guest on their diamond's carat weight, cut, color and clarity. A 10 power magnification Gemscope assesses their diamond's clarity grade; a certified GIA diamond lite determines their diamond's color grade; an authentic diamond scale, used by raw diamond buyers, weighs their exact diamond's carat weight; and certified GIA Facetware software is utilized to provide their exact cut grade of the diamond.

Unlike traditional jewelry operations where items are purchased directly from a wholesaler and then sold to the end customer,

Spence offers 3200+ designer prototypes that can be customized in a variety of ways – bands come in various karat weights and types, and diamonds are always unique in their shape, quality and size. This is unique to the Spence retail model, thus, requiring a custom in-house POS software solution. Also, unlike traditional jewelers, the in-house built POS system allows for seamless integration across three key business units (retail, manufacturing & diamond buying). The system expedites the order process from the store level directly to the Design Studio, providing the ability to start the production of a jewelry order within 2 hours. Once a customer designs their special ring with their unique diamond, the company wide inventory is updated in real time, thus, allowing Spence to maintain low levels of inventory. Information is then tracked, step by step, through the manufacturing process on what stage of the production the ring is at. For the Design Studio, the system also tracks the productivity and work flow efficiencies



during the manufacturing process. Through the use of the custom designed in house POS system, Spence is able to deliver custom made-to-order diamond jewelry within 7-14 days, maintain optimal inventory levels, provide customers a wide selection of diamonds and live goods, while minimizing the investment required in working capital at the store level.

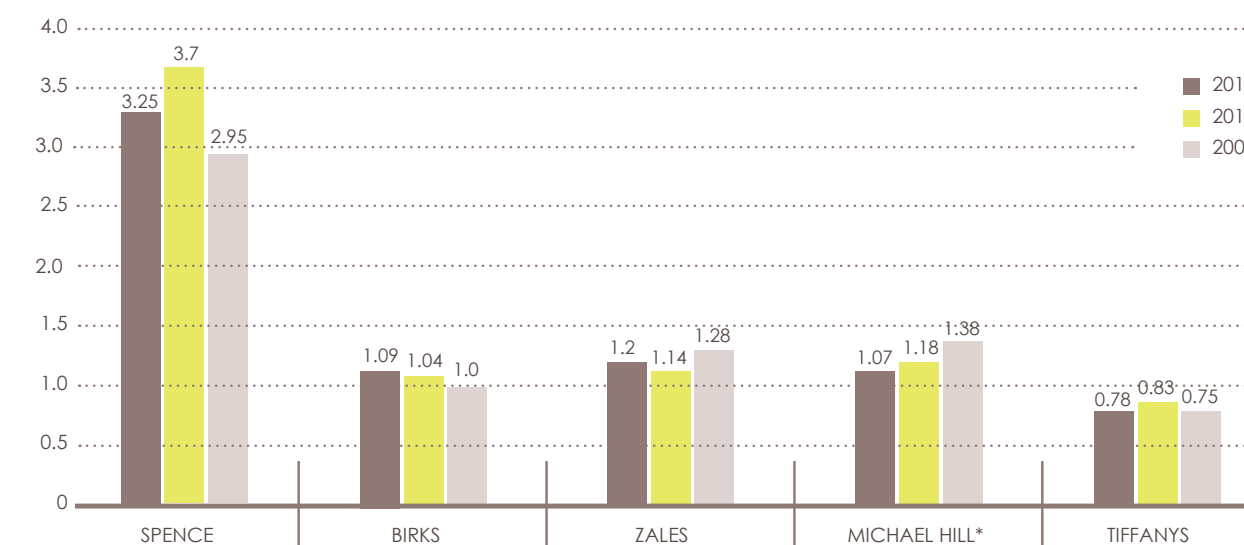
State-of-the-art technology is also leveraged during the custom manufacturing process. Through the use of an innovative three dimensional Rapid Prototyping and Manufacturing system, exceptionally detailed

CUSTOMER QUOTE

"Coffee was good while we browsed the showcases ... everything was at our fingertips. The background education for the "4 C's" was especially valuable as it has been many years since we purchased our last diamond. Hopefully it won't be that long to our next purchase as you made the whole experience memorable."

3D model designs can be built into solid form at rapid speeds, with extremely high quality and accuracy. Two sets of laser welders and a visual laser marker made by the industry's market leader in laser-based technology, Rohin, are also utilized. Complemented by additional delicate tools and equipment, these cutting edge technology elements allow for Spence to achieve great efficiency, accuracy and quality during the custom manufacturing process.

INVENTORY TURNS | 2009 THROUGH 2011



*Michael Hill Canadian Results



CUSTOMER QUOTES

"I was very pleased with the way that I was able to make my decision and the service that was provided both before and after I bought my ring for my fiancée. From beginning to end, I was happy with the care I received. The service, selection and Spence guarantee are second to none."

"Thank you very much for showing us the details of diamond cutting and grading, and for taking the time with us. The service was amazing! Often in other jewelry stores we felt intimidated and slightly rushed. We really enjoyed trying on the rings in the open showcases. Thanks again!"

with the University of Alberta's School of Retailing to customize a 6 month program specifically for the development of the Spence SLT. The SLT then continued to meet with two professors from the University of Alberta's Retail MBA program monthly in person, and held weekly coaching phone calls with the team for an additional two years. Furthermore, by later collaborating with Harvard Professor, Frances Frei and then lululemon Board of Director, Rhoda Pitcher, the SLT consciously continues to build an enriching environment for the further development of their capabilities and competencies.

With regards to succession planning, the business was purchased in 2006 by the present shareholders, and there are no immediate plans for exit from the business. Given the company's valuation increases significantly when the business has a strong leadership team, investment in Senior Leadership development and the building of a strong organizational team are key areas the shareholders are focusing on.

COMMITMENT

Long-Term Plan

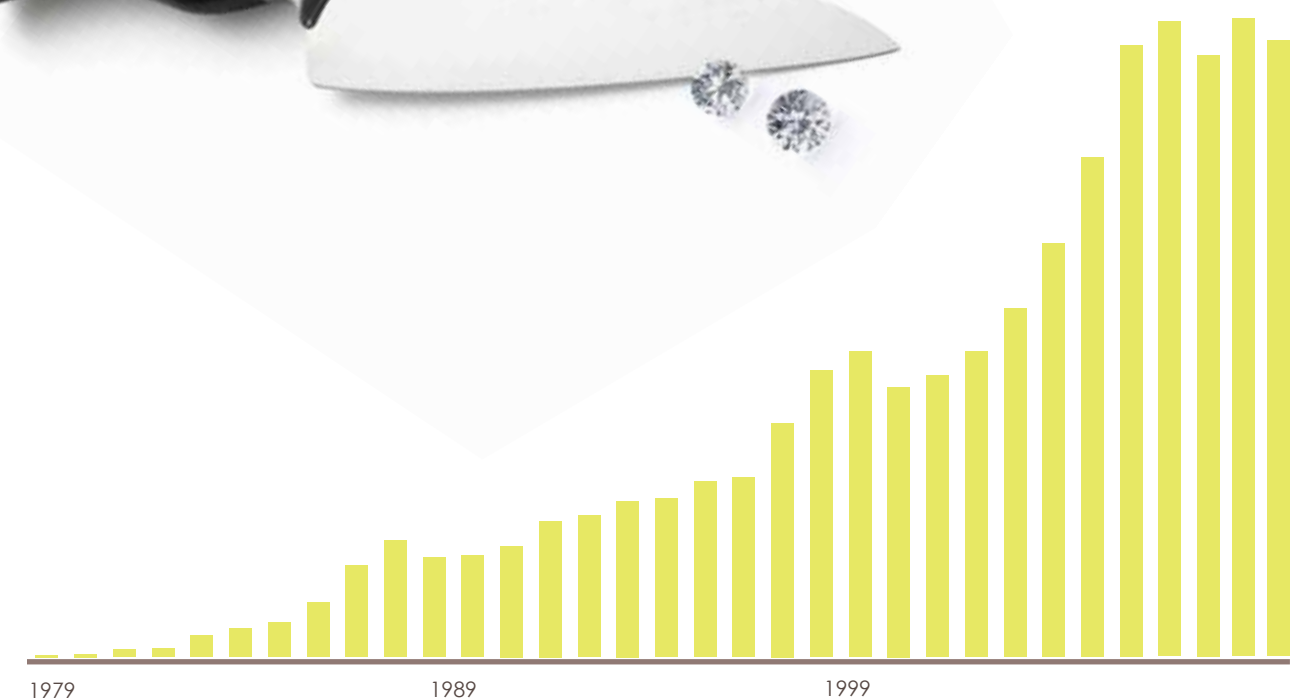
Spence's long term plans are focused on organizational growth. With increased market share and entry into new markets, the organization's reach and ability to support an even larger number of individuals to achieve great success will be heightened.

The short term primary focus is growth of sales in existing markets, by capturing a larger market share in each region and increasing conversion rates within each location. Plans for a new location in Ottawa, Ontario, are scheduled for 2013. Growth in new markets outside of Canada will commence, once the SLT has achieved a level of overcapacity to fuel sustainable growth.

In addition to Spence's category killer approach, discussions and plans for smaller

footprint locations in medium sized Canadian markets are being explored. This strategy would consist of smaller retail outlets, with significantly lower cost bases, to serve the medium sized cities in Canada. Additionally, to extend the reach of the Spence experience within Canada, a pilot test of an internet based retail operations in two to three small Canadian markets will be conducted in 2012.

Prior to embarking on this growth plan, the SLT is devoted to developing the organization's management capabilities and competencies. The company is committed to ensuring the SLT has excess capacity prior to enacting growth plans. In 2006, based on the organization's core belief in establishing synergistic alliances with successful business leaders and organizations, the SLT partnered



SPENCE HISTORY REVENUE GROWTH



COMMITMENT

People Development & Succession Planning

Spence is proudly a learning organization with a core belief in supporting each team member to create an extraordinary life of their own design. Spence is dedicated to developing from within, by investing immense resources in training and development.

The majority of the talented Design Studio team have attained their trade certifications by apprenticing internally. The company invests ample time and resources to support individuals to become successful goldsmiths, including full financial tuition aid to attend the Jewelry Technique Course from Vancouver Community College, prior to commencing their 3 year apprenticeship program internally. Others seeking continuous education in the Design Studio/Diamond Services are encouraged to attain their Diamond Council of America (DCA) accreditation and the Gemological Institute of America (GIA)

certification, with all tuition expenses paid for by the organization.

All Diamond Consultants are also provided with the opportunity to complete their DCA accreditation and GIA certification (the Diamonds and Diamond Grading programs) within their first year of employment. Both of these non-profit institutes reflect Spence's commitment to build consumer confidence when purchasing diamonds. Spence proudly has the highest percentage of DCA and GIA certified consultants serving their customers in Canada.

A regimented training program is practiced to ensure each new hire is set up for success. The first 2 weeks of the training schedule is detailed day by day, with well-defined action items and expectations. As the new employee progresses by exceeding daily goals, weekly

goals are set, followed by monthly action plans. Ongoing daily Morning Meetings are held in each store to role play scenarios and to foster the ongoing development of customer service skills. With permission from customers, presentations are recorded and then later reviewed during these meetings to assist consultants with improving their abilities to satisfy their customer needs. Spence best practices of role playing, interactive based training, use of engaging manuals and DVDs are employed to ensure rigorous training standards are exceeded. Referencing techniques from the Freidman Group, known for marrying the best practices from the retail and professional sales industries, the Spence training program for Branch Managers and Multi-Store Managers focuses on the effective development of sales professional in a retail environment.

Performance management techniques are implemented at all levels within the organization. Each consultant is supported to create a personal and professional growth plan. Weekly one hour One on One meetings are held, where the consultant discusses their 10 Year Plan, life goals and action steps with their respective manager. Amongst efforts to create an enriching environment, the organization supports their people to achieve success in all realms of their life.



CUSTOMER QUOTE

"We have been looking for an engagement ring for a few months now but this was the first time either of us had been to Spence Diamonds and wow, what a difference! Chad was the gentleman that we were dealing with and he was extremely helpful in finding the ring I eventually choose. I must have looked at every ring in the store! We were further impressed when he took the time to teach us all about diamonds and then found us a diamond that was exactly what were looking for."

"I was initially attracted to Spence Diamonds by their "to the point" informative media advertising. My HIGH expectations for quality and service were met and exceeded when I visited the store for the first time."



COMMITMENT

Building a Supportive Culture - Engaging & Retaining Employees

Committed to uplifting people to achieve success far greater than they ever have, Spence invests an immense amount of time, energy and resources into the development of their people. The Spence culture is built on the foundation of harnessing the energies of reciprocity, collaboration and continuous learning. Every team member is empowered with the resources and tools to build and create a future of their own design.

Performance based compensation is a key motivator for the ego-driven Spence professional Diamond Consultant. Earning an average of approx. \$90,000 a year, Spence Diamond Consultants earn a healthy base salary, fee for service and a substantial long term financial incentive, up to \$42,000 per year. Spence consultants are a group of hand

selected, elite top sales professionals. Often recruited from the real estate, financial or office equipment sales industries, attainable sales goals are set at \$1.5 million per year per consultant. Due to their performance based compensation program, consultants are empowered with the ability to realize a financial future of their choice.

Based on a commitment to the people that drive the business, all team members not on a formal bonus program in the Store Support Center have the opportunity to earn an annual profit share. For some team members, this profit share portion could be up to 10% of their total income.

The Spence Senior Leadership Team (SLT) has also recently embarked on a journey



collaborating with Rhoda Pitcher, lululemon Board of Directors member, to propel the success of the SLT to new heights. The organization's most senior leaders committed to this year long journey, with the investment equating to half a million dollars, not including salaries of the individuals and opportunity loss of time. Collaborating with Rhoda Pitcher, an experienced resource whom has worked with the likes of Howard Schultz at Starbucks (worked with Starbucks as the company grew from 200 stores to 11,000 locations), Chip Wilson at lululemon (growing with lululemon from \$40 million to \$1 billion in sales), Bill Ford with Ford Motor Company and various other senior leadership teams to create and realize unprecedented futures, the Spence SLT is committed to building an organization that supports others in realizing their dreams, goals and aspirations. In addition to the ongoing Senior Leadership Development seminar, all Spence team members are given the gift of attending self-development seminars, provided by Landmark Education (described as a powerful, accelerated learning experience to enhance individuals' abilities to relate, perform and communicate), with all expenses paid for by the organization.

By cultivating an environment of success for customers, employees, suppliers and the people in the communities in which Spence lives and works, the organization is committed to uplifting others to achieve immense success far greater than they ever have before.

CUSTOMER QUOTES

"Your selection was amazing. We really liked all the GIA diamond grading equipment - at other jewelers we were only able to look through a loupe. But seeing the cut and how closely our diamond matched the ideal was great. The diamond we chose has so much more sparkle than any other we looked at. Thank you!"

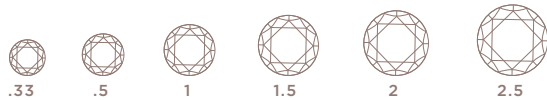
"We loved the no-pressure sales. We walked in and were introduced to the open showcases, and were then left alone to browse through the store. It was great!"

THE FOUR C'S OF DIAMONDS



CARAT

A diamond's weight is measured in carats. Generally speaking, larger diamonds are more rare. But size alone doesn't determine a diamond's value - cut, colour and clarity also impact a diamond's brilliance and its value.



CLARITY

Most diamonds contain natural birthmarks or "inclusions" that make them unique. The fewer the inclusions, the greater the value. Flawless diamonds are extremely rare and therefore more expensive.



COLOUR

The subtle colours of diamonds are graded by the GIA on a scale that ranges from D, colourless, to Z, light yellow. Diamonds at either end of the scale are more costly due to their rarity.



CUT

A diamond's brilliance will depend on the dimensions of its cut. A well-proportioned diamond explodes with light out of the top of the stone. Spence utilizes GIA Facetware™ Software to scientifically evaluate the cut of all diamonds.



spence

www.spencediamonds.com