DIAMOND STANDARD, INC.

DISCLOSURE STATEMENT

May 15, 2023

The Diamond Standard Commodities have not been approved or disapproved by the SEC, the CFTC or any other federal or any state governmental agency, nor has any federal or state governmental agency assed upon the accuracy or adequacy of the information contained in this Disclosure Statement. Any representation to the contrary is a criminal offense. The Diamond Standard Commodities offered hereby have not been registered under any federal or state securities laws or otherwise registered under any non-US securities laws.

This Disclosure Statement is dated May 15, 2023. Diamond Standard, Inc. disclaims, and does not undertake, any obligation to update this Disclosure Document or to otherwise notify any potential investor in the event that any facts stated herein changed or subsequently become inaccurate.

Diamond Standard Inc. (“DS”) is the creator of the world's only regulator-approved diamond commodities. Diamonds are a historically uncorrelated and inflation resistant natural resource with unique potential for appreciation, as they are acquired by more investors. By unlocking diamonds as a market traded asset, Diamond Standard helps investors access a natural resource currently worth approximately $1.2 trillion. The diamond commodity (“DS Commodity”) provides diversification, potential inflation protection, and a new store of wealth for institutional and individual investors, while bringing transparency and efficiency to the diamond supply chain.

DS produces and sells bars (each, a “DS Bar”) and coins (each, a DS Coin”). Every DS Bar and DS Coin is equal. It is a physical commodity composed of a statistically calibrated set of natural diamonds. The sets of diamonds inside every DS Bar are equivalent and public, geological samples. DS Bar and DS Coin initial offerings are regulated by the Bermuda Monetary Authority and audited by Deloitte. The authenticity and fairness of the DS Commodity is ensured by full transparency regarding the contents, sourcing, and price discovery of the diamonds comprising every DS Commodity.

To make DS Bars and DS Coins equivalent, the diamonds embedded inside are purchased regularly through a statistical sampling process, by automatically bidding on the inventory of many competitive diamond vendors, to purchase a statistically valid sample of thousands of natural diamonds. Every purchase must include a valid sample of the primary diamond characteristics, such as carat, weight, color, and clarity, between 0.18 carats to 2.05 carats. None of the diamond vendors are connected to DS and the bidding is transparent to all vendors. DS may also purchase diamonds directly from consumers, and then have them independently graded.

The gemological details of every diamond acquired through this bidding process are made permanently public, then the diamonds are distributed into DS Bars and DSCoins fairly by an optimization system. The optimizer ensures that each DS Bar and DS Coin contains an equivalent share of gemological scarcity and therefore represents equivalent value. Every DS Bar and DS Coin approximates the natural yield curve of the range of diamonds in the earth’s crust, which does not change over time.

Diamonds are purchased from hundreds of competing vendors through the Diamond Standard Exchange (the “Exchange”). The Exchange uses automated market making and transparent bidding, to force a consistent price discovery mechanism for all diamonds in the range. To maintain the systems and cover the cost of delivering the diamonds globally, the Exchange charges a 3.5% fee. All diamonds contained in a DS Bar and DS Coin are independently graded by gemological labs, and all larger diamonds are reinspected by a competing lab. Grading and confirmation services are provided exclusively by the Gemological Institute of America (“GIA”) and the International Gemological Institute (“IGI”). DS Bars and DS Coins are assembled inside the IGI labs and then optically audited.

The daily market price (or fix) of the DS Bar and DS Coin is not set by DS. It is established by market transactions—just like gold. DS sells new DS Bars and DS Coins at a small premium or discount to the market-determined fix, and then purchases new statistical samples of diamonds. DS Bar and DS Coin owners may offer to sell their DS Bars and DS Coins at the market price through the Exchange, or to any buyer at a mutually agreed price. DS Bars and DS Coins are not transactable until they are produced and delivered to the buyer's physical custodian.

During this time, the value of a DS Bar or DS Coin may go up or down. To trade a DS Bar or DS Coin on an exchange, it must be held by a physical custodian approved by DS ("Approved Custodian"), currently Malca-Amit and Brinks.

The DS Bar and DS Coin is physical and fungible. The production of the DS Bar and DS Coin is supervised by the Bermuda Monetary Authority and internally audited by Deloitte. Every DS Bar and DS Coin is designed to be geologically equivalent and intended to trade on the market at the same price, just like a standardized gold coin. The DS Bar and DS Coin is always delivered to the owner or its custodian. An investor is not purchasing a share of a pool or a futures contract; it is purchasing a real commodity containing a set of diamonds that is statistically similar to that in others. By containing a representative sample, the DS Bar and DS Coin accurately reflects the underlying range of diamonds. The demand for the DS Bar and DS Coin creates demand for those diamonds, impacting the value.

Under the statistically calibrated, public set of diamonds, each DS Bar and DS Coin contains a wireless computer chip. This chip enables real time electronic auditing, instant authentication and confirmation of receipt by a custodian, and also stores a blockchain token—a BCC (Bitcarbon Coin). An investor's BCC token and the DS Bar or DS Coin are inseparable. The token key is the receipt for the specific DS Bar or DS Coin.

DS charges no fees for any transactions a holder makes after the initial sale of the DS Bar or DS Coin. Custodians charge fees for their services, which Diamond Standard Trust, an affiliate of DS, will administer upon request. Until it is received by the Approved Custodian, the DS Bar and DS Coin are insured by the carrier, An Approved Custodian can authenticate and then store the DS Bar and DS Coin in its vault, or it can store the DS Bar and DS Coin inside a Diamond Standard Smart Cabinet. This Smart Cabinet audits and authenticates the DS Bar or DS Coin in real time. Physical custodians have no ability to electronically transact a DS Bar or DS Coin.They cannot falsify the audit of a DS Bar or DS Coin held in a Smart Cabinet — the DS Bar or DS Coin itself replies to encryption-challenge queries.

The DS technology and processes are designed to be regulatory-compliant, acceptable for institutional investors, and capable of supporting securities offerings, such as the U.S. Commodity Futures Trading Commission ("CFTC") regulated futures and options, and the U.S. Securities and Exchange Commission ("SEC") regulated ETF funds, and their global equivalents. Purchasers do not need to be accredited investors. DS is internally audited by Deloitte, with regulatory oversight and a license from the Bermuda Monetary Authority.

Currently DS Bars and DS Coins are only deliverable to U.S. addresses and Approved Custodians. In the future, production and delivery will be offered in more countries. Signature with positive identification is required, and other restrictions may be imposed by the carrier, which are beyond the control of DS. For deliveries to all US states where it is required, sales tax will be collected. For delivery to a Delaware custodian, there is no state sales tax.

RISK FACTORS

GENERAL INVESTMENT RISKS

An investment in DS Commodities is highly speculative in nature and suitable only for sophisticated investors that are aware of the risks involved in an investment in the DS products. Investors must have the ability and willingness to accept (i) the risk of the potential total loss of their investment and (ii) the illiquid nature of an investment in DS Commodities. Prospective investors must consider each of the following risks before purchasing any DS Commodities.

DS Commodities May Be Lost, Stolen or Destroyed or May Become Inaccessible. The Approved Custodians are well-established and well-regarded industry participants, and DS reasonably believes that they will effectively custody investors' assets and mitigate the risk of loss. However, there remains a risk that part or all of the DS Commodities could be lost, damaged, destroyed, stolen or subject to limitations on access due to natural or man-made occurrences such as extreme weather, fires or earthquakes; power loss or computer, network or telecommunications failures; usage errors by personnel; infiltration or sabotage by unauthorized persons, including through malware, viruses and worms, denial of service attacks, ransomware, hacking, exploitation of code flaws, phishing attacks, employee theft or misuse and other forms of cyberattacks; terrorist attacks; vandalism or other intentional acts of destruction; or similar events or malfeasance (each, a "**Loss Event**"). There can be no assurance that the DS Commodities will not be subject to a Loss Event or that DS would be able to recover all or a portion of an investor's assets following a Loss Event. Even if DS is able to recover investor assets, the time and cost expended in the recovery may materially reduce the value of the recovery. Under the agreements executed between DS and each Approved Custodian (the "Custodian Agreements"), the Approved Custodians are insuring the DS Commodities for full replacement value. However, the approved Custodian's insurance underwriter may attempt to claim that DS is not entitled to damages or other recompense in connection with a Loss Event. Moreover, DS's only source of recovery may be limited to the relevant Approved Custodian or, to the extent identifiable, another responsible third party. There can be no assurance the Approved Custodian or responsible third party, as the case may be, will have the financial resources to satisfy a valid claim by DS. Consequently, any Loss Event could materially and adversely affect the value of an investment in DS Commodities.

Inclusion of the BBC Token in the DS Commodities May Substantially Increase the Likelihood of Regulatory Scrutiny. Information such as the diamond certificates for the diamonds contained inside the DS Commodities are stored on a public blockchain. As a result, DS is likely to draw significant attention from regulatory authorities, which could increase the likelihood that it will become the target of threatened or actual regulatory suits or proceedings. Even if ultimately resolved in its favor, such regulatory action could result in serious financial and/or reputational harm, which could materially adversely affect DS and the value of DS Commodities. If not resolved in its favor any such regulatory action could require DS to cease all operations, which would likely cause investors to lose their full investment in the DS Commodities.

DS Commodities are Highly Speculative Assets and There Is No Guarantee of Profit or Against Loss. DS Commodities are new and highly speculative assets, with limited performance history. Their performance may be volatile, and investment results may vary substantially over time. Investments of this type may be considered more speculative than many other investments, such as large market cap securities. Moreover, there is no assurance that a market for DS Commodities will develop or, if it does, will continue to grow, either of which could materially adversely affect an investment in these products. There is no guarantee that DS Commodities will provide an acceptable return to investors or will not incur substantial losses, including the potential loss of an investor's entire investment.

DS Commodities Are Subject to Supply and Demand Related Risks. Currently, there is a very small float of DS Commodities in the marketplace (presently consisting exclusively of DS Coins and DS Bars), contributing to price volatility that could materially adversely affect an investment in these products. Further, a limited supply of DS Coins and DS Bars, the potential lack of growth in retail and institutional demand for these products or a contraction of such demand, may result in increased volatility, which could materially adversely affect an investment in them. New DS Commodities can only be produced by DS, which severely limits the capacity to create new DS Commodities in response to any demand that may develop. The diamonds for the DS Commodities are overwhelmingly acquired through Diamond Standard Exchange Ltd., and must be graded and inspected by gemological labs, which themselves have limited capacity. These factors could materially adversely affect an investment in DS Commodities.

There Is Presently No National Market Price for the DS Coins and DS Bars. DS's initial selling price of the DS Coins in February 2021 was $5,000, which figure was a function of, among other factors, the acquisition cost of the diamonds qualifying to be inserted into DS Commodities (the "Qualifying Diamonds") and the costs and expenses associated with assembling them into DS Coins. Since the initial offering date, DS has calculated, and continues to calculate, subject to Deloitte audit, the selling price of the DS Coins on a weekly basis by multiplying the initial $5,000 offering price by the cumulative percentage increase or decrease (for the relevant time period) in the composite price index of diamonds published by a reputable third party in the diamond industry. This price is the DS Price. Similarly, the initial selling price of the DS Bars, which was calculated by multiplying the then-current DS Price of the DS Coins by ten, since each DS Bar is calibrated to incorporate diamonds with a value equal to ten times that of a DS Coin. The DS Price of a DS Bar at any given time is calculated by multiplying the then-current DS Price of a DS Coin by ten.

DS believes that this calculation of the DS Price is reasonable because the composite index price should reasonably reflect the overall price trend in the polished diamonds market generally. While each DS Coin and DS Bar contains unique Qualifying Diamonds of different sizes, grades and clarity, each DS Coin is intended to be geological frequency equivalent to each other DS Coin and fungible with one another (and the same is intended with respect to each DS Bar). Therefore, DS believes that the use of a composite index price to calculate the aggregate value of the Qualifying Diamonds in each DS Coin and DS Bar as a whole is a more appropriate metric for calculating the DS Price than separately valuing each Qualifying Diamond contained in a given DS Coin or DS Bar using, for instance, the "ask" price sheets for diamonds of specific sizes, grades and clarity that are published by diamond industry participants, such as Rapaport or IDEX. It should be noted that the price of a given DS Coin or DS Bar when calculated using published "ask" price sheets (i.e., aggregating the published "ask" prices of the individual diamonds in such DS Coin or DS Bar) is often materially lower than the DS Coin or DS Bar DS Price, although on certain occasions such price has been higher than the DS Price. The foregoing risk may be mitigated to some degree to the extent that an Index becomes available that is designed to take into account both the DS Price as well as price data with respect to purchases and sales of DS Coins and DS Bars on the secondary market.

The DS Price of the DS Coins and DS Bars May Not Be Equivalent to, and May In Fact Be Materially More than, the Price at Which Investors Are Able to Liquidate Their DS Commodities. There can be no assurance that investors will be able to liquidate their holdings of DS Commodities at the DS Price and, in fact, there is a substantial likelihood that the liquidation price may be substantially less than the DS Price. As a threshold matter, the DS Market (as defined below) is significantly smaller than the overall diamond market and, at present, does not reflect material buying and selling activity. See below "The Market for DS Coins and DS Bars is Significantly Smaller than the Overall Diamond Market, And, If It Experiences Stagnant or Limited Growth, There May Be Material Adverse Effects on the DS Commodities." There can be no assurance that there will be willing buyers for an investor's DS Commodities at any time and, if there were, that such buyers would be willing to make purchases at prices or at times favorable to an investor. In addition, the market for polished diamonds in general is not as liquid, transparent or efficient as the markets for other assets, such as physical precious metals or financial instruments. There is no market or market maker for polished diamonds that provides for consistent volume, liquidity and price discovery. Therefore, at any given time, there generally is no consistently discernible market "bid" price for a particular diamond of any given size, grade or clarity, and no guarantee at all that there is a willing buyer for that diamond at any price. Moreover, the market for polished diamonds is fundamentally relationship-oriented. A well-established diamond industry participant, such as a dealer, grader or auction-house, with relationships throughout the polished diamonds market, will have a significantly higher likelihood of buying or selling a given diamond at a favorable (or less unfavorable) price than the average individual seeking to buy or sell on a personal basis. Even well-established diamond industry participants have no guarantee that they will be able to sell or buy diamonds at desired prices or times, as their ability to do so is significantly dependent on the demand of their relationship counterparties at any given time. For example, it is not uncommon that a diamond purchased at a particular price will only be able to be resold at a substantial discount (anywhere from 20% to 75% or more depending on the diamond and the seller's market relationships) even if that diamond is immediately reoffered for sale, and there has been no intervening change in the overall diamond market.

For all of the foregoing reasons, there is a material risk that investors may be unable, at any given time, to liquidate their DS Commodities at prices that are materially equivalent to the Benchmark Price or at all, which would have a material adverse effect on investors. This risk could be exacerbated with respect to the unassembled DS Coins and DS Bars as they cannot be liquidated in the same manner as assembled DS Coins and DS Bars and may therefore be sold at materially lower (or possibly higher) prices than assembled DS Coins and DS Bars.

If a material DS Market develops in the future, the value of investor holdings may be based on the market price of the DS Coins and DS Bars as reasonably determined based on the buying and selling activity of DS Coins and DS Bars (collectively, the "DS Market"), (using, for example, the average bid-ask price of a DS Coin or DS Bar on a given day to the extent available). However, there can be no assurances that any DS Market will develop or, to the extent it develops, that the DS Market will develop in such a way as to permit a price calculation that can serve as a reasonable substitute for the Benchmark Price. It is anticipated that DS will rely on the Benchmark Price to calculate the value of an investors' DS Commodities for the foreseeable future, and it is possible that it may do so indefinitely.

The Value of DS Commodities Is Subject to General Market Risk. Market risk refers to the risk that the market price of DS Commodities held by investors will rise or fall, sometimes rapidly or unpredictably. The success of an investment in the DS Commodities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, monetary policies of governments, currency devaluations and revaluations, changes in laws, and global or regional political, economic or financial events and situations. These conditions may affect financial assets' prices and liquidity levels, which could, in turn, influence the value of the DS Products. Unexpected market volatility or illiquidity could impair an investor's profitability or result in losses. In particular, the relationship between these general conditions and the DS Commodities is not well-studied or well-known, and their effect on the value of DS Commodities could be more unpredictable and/or substantial compared to the influence of these conditions on more conventional financial assets such as stocks and bonds. All of the foregoing could increase the potential risk exposure of an investment in DS Commodities.

Fluctuation of the Value of DS Commodities. The value of DS Commodities will generally fluctuate with changes in the market price of the DS Commodities. The market prices of DS Commodities will generally fluctuate in accordance with their supply and demand and whether they achieve a listing to be traded on any other exchanges. Price differences may be due, in large part, to the fact that supply and demand forces at work in the secondary trading market for DS Coins or DS Bars, if any exist in the future, will be closely related to, but not identical to, the same forces that may influence the DS Commodities at any point in time. If an investor purchases DS Commodities at a time when they are trading and their market price is at a premium, or sells at a time when the market price is at a discount, then the investor may sustain substantial losses.

Financial Market Dislocation May Have Negative Investment Consequences. U.S. and other financial markets around the world and their participants, can be adversely affected by unusual market turmoil such as the upheaval in the global financial markets that occurred in 2008 and subsequent years and during the COVID-19 (commonly known as the "CORONAVIRUS") pandemic in 2020 and 2021. A more recent example is Russia's military invasion of Ukraine in February 2022, which resulted in the United States and other countries imposing significant, wide-ranging economic sanctions against Russia. These sanctions include, for example, the freezing of certain Russian assets, prohibition of trading in certain Russian securities, and prohibitions on business dealings with specific Russian corporate entities, large financial institutions, officials, and oligarchs. The aforementioned sanctions and any additional sanctions or other governmental or regulatory actions (as well as the potential for wider conflict, which could include retaliatory actions by Russia, such as cyberattacks on other governments or corporations) could result in significant market disruptions, including disruptions in the oil and gas markets and material adverse effects on global supply chains, inflation, and growth, all of which could materially affect the trading activities and value of the DS Commodities.

The occurrence of any market upheavals of the type described above—and the ensuing market, legal, regulatory, reputational, or other consequences—are unpredictable, as are the market, legal, regulatory, reputational and other consequences they might have, but if they do occur, they are likely to have a material adverse effect on the prices of the DS Commodities.

Epidemics and Pandemics Present Additional Risks. Many countries have been susceptible to epidemics, such as severe acute respiratory syndrome, avian flu, H1N1/09 flu, and, currently, COVID-19 (commonly known as the "**CORONAVIRUS**"), which the World Health Organization has declared to be a pandemic. The epidemic or pandemic outbreak of an infectious disease in a country or region of the world or globally, together with any resulting restrictions on travel, transportation, or production of goods or quarantines imposed, will likely have a negative impact on the national, regional, or global economy and business activity in some if not all of the countries from which DS sources its diamonds. While the economic impact of the ongoing global outbreak of the CORONAVIRUS is at present uncertain, such outbreak and any future outbreak of an infectious disease or any other serious public health concern in a country or region or globally and could materially harm the value of the DS Commodities.

Specifically, an escalation in the CORONAVIRUS outbreak could see a continual and drastic decline in global economic growth. (Some economists have warned that global economic growth could be cut by more than half and that countries and the global economy could be plunged into recession.) In addition, the CORONAVIRUS has led to significant volatility in the global financial markets, and the CORONAVIRUS and any future outbreak of an infectious disease or any other serious public health concern may lead to additional volatility and illiquidity of the DS Commodities. The CORONAVIRUS could also lead to the imposition of emergency or extraordinary regulatory restrictions on markets and trading activities, which could materially harm the value of the DS Commodities. Furthermore, the CORONAVIRUS and any future outbreak of an infectious disease or any other serious public health concern may lead to significant interruption in normal business activity of other service providers to the DS Commodities, such as the Approved Custodians, which could negatively affect the value of the DS Commodities.

RISKS RELATING SPECIFICALLY TO THE DS COMMODITIES

The Value of the DS Commodities. The price of physical diamonds generally, including Qualifying Diamonds , has fluctuated substantially over time and been volatile at times. There can be no assurance that the price of diamonds will increase in the manner that DS expects or will not experience sudden, severe and/or long-term decreases. There can be no assurance that diamonds will maintain their long-term value in the future. If the price of diamonds declines, the value of an investment in the DS Commodities likely will also decline, which decline may correlate to or exceed the decline in the price of diamonds.

The Price of Diamonds May Be Volatile and May Decrease Significantly, Which Could Materially Adversely Affect the Value of the DS Commodities. The price of diamonds may be volatile and may decrease significantly due to numerous factors, which are difficult and often impossible to predict. These factors include, without limitation, the following:

- adverse changes in global diamond supply and demand, which is influenced by such factors as general economic and market influences on jewelry demand or consumer demand more generally, and production and cost levels in major diamond-producing regions such as central and southern Africa and countries including Canada, Russia, Brazil and Australia;
- significant increases in overall diamond supply, which could arise from significant discoveries of mineable gem-quality diamond supplies and/or material increases in the resale and recycling of gem-quality diamonds;
- speculators and investors adopting a negative outlook on diamonds, which could result in a general decline in world diamond prices;
- increases in the level of hedging activity of diamond producing companies and jewelers; and
- adverse global or regional political, economic or financial events and situations.

The Viability and Performance of the DS Commodities Is Dependent on DS's Continued Ability to Acquire Qualifying Diamonds and Produce DS Coins and DS Bars. DS sources Qualifying Diamonds from the open market. There may arise circumstances in which DS may be unable to continue acquiring Qualifying Diamonds or producing DS Coins and DS Bars, including, without limitation, where there exist:

- material limitations on the supply of diamonds, which may occur due to a variety of factors, including, for example, disruptions in mining operations or other supply chain issues or a natural scarcity of rough diamonds capable of being polished into Qualifying Diamonds;
- other substantive disruptions in the diamond market, such as the closure or failure of major market participants, such as dealers, auction houses and producers, or decreased volume and liquidity in the diamond market;
- any material limitation on the ability of DS to acquire Qualifying Diamonds at desirable prices, which may arise, for example, (i) if DS is unable to maintain relationships with market makers or otherwise participate in the diamond market, (ii) if there is limited volume or activity on the diamond auctions or exchanges in which DS participates or the sales desk or auction maintained by DS or its affiliates, or (iii) if there are material issues in the ability of DS's affiliates to create markets for and facilitate DS's acquisition of Qualifying Diamonds; and
- any other substantive disruption in the operations of DS, including, for example, (i) a failure of, or termination of a relationship with, a major service provider to DS, such as an Approved Custodian; (ii) a termination of the arrangement with IGI for it to grade Qualifying Diamonds and assemble DS Coins and DS Bars in accordance with DS's production requirements; (iii) in the case of (i) or (ii), an inability to contract with a suitable replacement for an Approved Custodian, or IGI, as applicable, in a timely manner; (iv) any material errors or interruptions in the technology underlying the assembly of DS Coins and DS Bars, such as a failure of the "enrollment" station necessary to generate and verify chips used to authenticate the DS Commodities; (v) any material adverse events relating to the tokens ; (vi) the lack of profitability, bankruptcy or insolvency of D; or (vii) material legal or regulatory matters, such as litigation with third parties or administrative proceedings brought by U.S. or non-U.S. regulatory agencies.

The inability of DS to continue acquiring Qualifying Diamonds or to produce DS Coins and DS Bars at sufficient quantities would likely have a material adverse effect on the value of the DS Commodities.

The Value of the DS Commodities Depends on the Acceptance of the DS Coins and DS Bars as Fungible Stores Of Value. DS believes that the key value proposition presented by the DS Coins and the DS Bars is the fungible nature of the diamonds embedded in them. Specifically, the set of diamonds contained in each DS Coin comprises a statistically valid sample of the primary diamond characteristics (including carat weight, color and clarity) for natural white diamonds between 0.18 carats to 0.75 carats as reflected in the original sample of diamonds acquired for DS's initial sale of the DS Coins in February 2021. The set of diamonds contained in each DS Bar similarly comprises a statistically valid sample of the primary diamond characteristics for natural white diamonds between 0.76 carats to 2.05 carats as reflected in the original sample of diamonds acquired for DS's initial sale of the DS Bars at the time of the DS Bar IPO, should the same occur (it being understood that the same may not occur or may be substantially delayed). The key difference between DS Coins and DS Bars is that the latter incorporates larger diamonds than DS Coins, and each DS Bar will be calibrated to reflect a value equal to ten times that of a DS Coin. The foregoing process is designed to reasonably ensure that each DS Coin and DS Bar (i) contains a set of diamonds of equivalent gemological scarcity, roughly approximating the natural yield curve of that range of diamonds included in the original sample of Qualifying Diamonds purchased in 2021 or 2023, as applicable, and (ii) is therefore fungible with each other DS Coin or DS Bar, as applicable. DS believes it is essential for the value of the DS Commodities and DS's ongoing operation that significant participants in the diamond market, including dealers, auction houses and others—as well as the diamond market generally—acknowledge and have confidence in the fungible nature of the DS

Coins and DS Bars produced by DS. In the event this is not achieved, such as where DS's diamond acquisition or production process is compromised for any reason, the value of the DS Commodities could be materially adversely affected. DS has no ability to alter the composition of DS Coins and DS Bars to restore market confidence in fungibility. As a result, an investor may be required to liquidate at a time and at market prices that are materially disadvantageous.

Diamond Mining and Production Is Highly Concentrated and Controlled by a Small Number of Miners and Producers Who Have Had and Continue to Have the Ability to Influence the Supply And Demand For Diamonds Throughout the Production Phase. The mining of rough diamonds and the production and sale of diamonds are industries with a limited number of large participants who control a substantial amount of the market share for such diamonds. The disproportionate market control of a limited number of companies is due to historical dominance of such companies over production areas, limited access to diamond resources and, in certain cases, government authorized monopolies or near-monopolies on the diamond mining or production industries in certain diamond producing nations. Such large companies represent a sufficiently large share of the diamond supply and intermediate demand in the production cycle for diamonds that the activities of such companies may, independently or jointly, depress the appreciation of diamond prices through, for example, price stabilization efforts and, thereby, materially adversely affect an investment in the DS Commodities.

Participants in the Diamond Market May Rely on Lines of Credit and Adverse Events in the Credit Market May Adversely Affect the Diamond Market and Diamond Prices Generally. Apart from major companies (such as publicly traded companies), a large number of small- to mid-sized businesses that are diamond dealers may rely heavily on credit to operate their businesses. A substantial tightening of credit markets may result in stagnation in the diamond market among smaller diamond dealers or in the closure or bankruptcy of small- to mid-sized diamond dealer businesses. For example, during the credit crisis in 2008, the overall debt level in the diamond industry as a whole decreased by 35% from $13.0 billion to $8.5 billion (although the debt level recovered to nearly $14 billion in 2011 according to a De Beers estimate). A large-scale stagnation or closure of diamond market participants may result in material adverse effects on the liquidity and volume of the diamond market as a whole and thus diamond prices generally.

The Market for DS Coins and DS Bars is Significantly Smaller than the Overall Diamond Market, And, If It Experiences Stagnant or Limited Growth, There May Be Material Adverse Effects on the DS Commodities. While the overall diamond market is significant in size, the DS Market currently constitutes a fraction of the overall diamond market. DS will endeavor to increase sales of DS Bars and DS Coins over time and DS expects that ongoing purchases of DS Bars and DS Coins will materially increase the aggregate volume and liquidity of the DS Market over time and potentially enhance consumer and institutional interest therein. However, there can be no assurance that any of these expectations will be met in substantial part or at all. In the event the DS Market experiences stagnant or limited growth, or decreases in size, the DS Bars and DS Coins may not increase (or may decrease) in value, and investors may be unable to achieve their intended investment objectives.

DS Relies On IGI and GIA to Verify That the Diamonds Acquired by DS Constitute Qualifying Diamonds and on IGI to Produce DS Coins And DS Bars in Accordance with DS Requirements. DS has engaged IGI and GIA to provide grading and confirmation services with respect to the diamonds acquired by DS. DS has also arranged with IGI to (i) assemble the DS Coins and DS Bars in accordance with the requirements established by DS, including an optimization standard developed by DS that is designed to fairly allocate Qualifying Diamonds among DS Coins and DS Bars (which is reasonably designed to allocate Qualifying Diamonds that are of equivalent gemological scarcity). IGI and GIA are sophisticated and well-regarded participants in the diamond industry, and DS reasonably believes that they will satisfactorily perform their obligations. However, there is a possibility that IGI and GIA may make errors in performing their obligations, which could, among other things, result in certain DS Coins or DS Bars containing one or more diamonds that are not Qualifying Diamonds and/or sets of diamonds inconsistent with the established allocation process ("**Flawed Assets**"). If a Flawed Asset is identified by a purchaser within 30 days of delivery from IGI, IGI is responsible for replacing any diamonds that are not Qualifying Diamonds and re-assemble the DS Coin or DS Bar, as applicable, at IGI's expense. After expiry of this 30-day period, neither IGI nor any Diamond Standard affiliate is responsible for correction of the Flawed Asset. A Flawed Asset is likely not to reflect a market price equivalent to a correctly produced DS Coin or DS Bar; the value of an investment in DS Commodities may be materially adversely affected if an investor holds a material number of Flawed Assets. Moreover, if a significant number of Flawed Assets are produced overall, the market may lose confidence in the value and fungibility of the DS Bars and DS Coins in general, which could materially adversely affect the DS Market and the value of the DS Commodities. DS has not and does not intend to engage a third party gemologist to independently verify the production of the DS Coins and DS Bars.

REGULATORY RISKS

Regulation of the DSiCommodities May Evolve and Is Subject to Change; Future Regulatory Developments Are Impossible to Predict but May Materially Adversely Affect the DS Commodities. The DS Commodities are subject to changes in both domestic and foreign government regulation. In the U.S., DS believes the following:

- that the DS Commodities are not subject to CFTC oversight, although the CFTC has not issued any regulations or given any guidance on what its conclusion on this issue might be; and
- the DSCommodities are not securities and, therefore, are not subject to SEC oversight.

Specifically, DS believes that the DS Commodities are simply physical commodities with inherent value that are neither commodity interests nor securities. Notwithstanding the foregoing and current and future legislation, CFTC and SEC rulemaking and other regulatory developments may affect the manner in which DS Commodities are treated for classification and clearing purposes, and the manner in which they are regulated. DS cannot be certain as to how future regulatory developments may affect the treatment of DS Commodities under the law.

To the extent that DS Commodities are deemed to fall within the definition of a "commodity interest" under the U.S. Commodities Exchange Act, DS and its affiliates may be subject to additional regulation under the CEA and CFTC regulations. DS and/or its affiliates may be required to register as a commodity pool operator or commodity trading advisor with the CFTC and become a member of the National Futures Association and may be subject to additional regulatory requirements with respect to the DS Commodities, including disclosure and reporting requirements.

To the extent that DS Commodities are deemed to fall within the definition of a security under U.S. federal securities laws, DS and its affiliates may be subject to additional requirements under the Investment Company Act of 1940, as amended (the "1940 Act"), and the Investment Advisers Act of 1940, as amended (the "Advisers Act"), DS and/or its affiliates may be required to register as an investment adviser under the Advisers Act. Either set of regulatory requirements may result in extraordinary, recurring and nonrecurring expenses. If DS and/or such affiliates determine not to comply with such additional regulatory requirements, they may need to materially amend their operations or even cease them completely. Any such termination could result in the cessation of DS's operations at a time that is disadvantageous to investors. In addition to the foregoing, to the extent that a United States or foreign government or quasi-governmental agency exerts other regulatory authority over the DS Commodities, their trading or ownership, such determination may have a material adverse effect on investors.

For example, the SEC staff may take the position that the DS Commodities are "investment contracts," and therefore securities under the test articulated by the U.S. Supreme Court in the case of SEC v. W.J. Howey in 1946, because they aggregate physical diamonds into a composite product whose value may deviate from that of the constituent Qualifying Diamonds as a result of, and whose value is dependent upon, the activities of DS and its affiliates in developing the DS Market. In the face of such developments, new or additional registration and compliance steps may result in extraordinary expenses to DS. If DS decides to modify or terminate its activities in response to changed regulatory circumstances, it may be dissolved or liquidated at a time that is disadvantageous to investors. It is possible that as a result of such determination the SEC concludes that DS and its affiliates engaged in an unregistered offering of securities when they first offered the DS Products. If the SEC pursues this course of action, it may initiate a proceeding against DS seeking rescission of such offering and/or substantial penalties. Any such action by the SEC could materially adversely affect DS and the DS Products, and potentially cause an investment in the DS Commodities to become completely worthless.

The regulation of DS Commodities and related products and services continues to evolve and existing regulation is subject to change and interpretation and new regulation could be imposed at any time. The United States or other jurisdictions may in the near future take regulatory actions in the future that restrict the right to acquire, own, hold, sell or use DS Commodities. Adverse regulatory actions could also be taken with respect to assets similar to DS Commodities, which could indirectly affect the DS Commodities. Any such action may also result in the restriction of ownership, holding or trading in DS Commodities. Such a restriction could subject DS and/or its affiliates to investigations, civil or criminal fines and penalties, which could harm the reputation of DS and its affiliates, and could result in the suspension or termination of trading in the DS Commodities, thereby creating a material adverse effect on an investment in the DS Commodities, or even lead to them having no value at all. Future changes in regulation are impossible to predict and may materially adversely affect the DS Commodities.

Trading of Diamond Standard Commodities Outside the United States Is Not Subject to U.S. Regulation and May Be Less Reliable than U.S. Markets. To the extent any trading in DS Commodities is conducted on markets outside the U.S., trading on such markets is not regulated by any U.S. governmental agency and may involve certain risks not applicable to trading in U.S. markets. Certain foreign markets may be more susceptible to disruption than U.S. markets. These factors could materially adversely affect the value of an investment in DS Commodities.

CONFLICTS OF INTEREST

CONFLICTS OF INTEREST APPLICABLE TO DIAMOND STANDARD

- DS LLC and DS Ltd. (which are, together, the sole producers of the DS Bars and DS Coins) and Diamond Standard are affiliated, wholly-owned entities that share a common parent company, Diamond Standard Inc. By purchasing and holding DS Bars and DS Coins, whether purchased through the markets or directly from DS, Diamond Standard is creating the demand for the goods and services of Diamond Standard's affiliates, specifically DS, Diamond Standard Exchange Ltd., and Diamond Standard Recycling LLC, with the expectation of generating profits for such affiliates.