

*Interim Consolidated Financial Statements of*

**BRC DIAMOND CORPORATION**  
(formerly BRC Development Corporation)

*March 31, 2005*

#### **NOTICE TO READER**

These interim consolidated financial statements of BRC Diamond Corporation (formerly BRC Development Corporation) as at and for the three month period ended March 31, 2005 have been prepared by management of BRC Diamond Corporation. The auditors of BRC Diamond Corporation have not audited or reviewed these interim consolidated financial statements.

**BRC Diamond Corporation**  
(Formerly BRC Development Corporation)

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**BRC DIAMOND CORPORATION**  
(formerly BRC Development Corporation)  
**Consolidated Balance Sheets**

	As at March 31, 2005 (unaudited)	As at December 31, 2004
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 166,172	\$ 115,532
INVESTMENT AND ADVANCES (Notes 5)	91,993	160,693
MINERAL PROPERTIES (Note 6)	1,024,204	522,636
CAPITAL ASSETS (Note 7)	142,772	48,329
	<b>\$ 1,425,141</b>	<b>\$ 847,190</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 103,596	\$ 66,152
Advances	438,356	-
Due to related parties (Note 4)	427,759	242,174
	<b>969,711</b>	<b>308,326</b>
<b>SHAREHOLDERS' EQUITY</b>		
CAPITAL STOCK (Note 8(a))	1,794,481	1,788,481
WARRANTS	-	1,000
CONTRIBUTED SURPLUS (Note 8(b))	337,428	236,821
DEFICIT	(1,676,479)	(1,487,438)
	<b>455,430</b>	<b>538,684</b>
	<b>\$ 1,425,141</b>	<b>\$ 847,190</b>

# **BRC Diamond Corporation**

(formerly BRC Development Corporation)

Consolidated Statements of Operations and (Deficit) Retained Earnings

(unaudited)

**Three months ended March 31, 2005 and March 31, 2004**

	<u>2005</u>	<u>2004</u>
<b>Expenses</b>		
Consulting fees (note 8(b))	\$ 58,718	\$ -
Professional fees	35,733	6,269
Management fees	24,161	12,000
General and administrative	7,204	4,386
Stock-based compensation	49,396	-
Depreciation	11,256	11,257
Foreign exchange loss	2,582	-
<b>Loss before the under noted items</b>	<b>(189,050)</b>	<b>(33,912)</b>
Interest income	9	-
<b>Net loss for the period</b>	<b>(189,041)</b>	<b>(33,912)</b>
<b>(Deficit) Retained earnings - beginning of the period</b>	<b>(1,487,438)</b>	<b>173,677</b>
<b>(Deficit) Retained earnings - end of the period</b>	<b>\$ (1,676,479)</b>	<b>\$ 139,765</b>
<b>Basic and diluted loss per share (Note 8(c))</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>

**BRC Diamond Corporation**  
(formerly BRC Development Corporation)  
Consolidated Statements of Cash Flows  
(unaudited)

**Three months ended March 31, 2005 and March 31, 2004**

	<u>2005</u>	<u>2004</u>
<b>Net (outflow) inflow of cash related to the following activities</b>		
<b>Operating</b>		
Net loss for the year	\$ (189,041)	\$ (33,912)
Items not affecting cash		
Stock-based compensation	100,607	-
Depreciation	11,256	11,257
	<u>(77,178)</u>	<u>(22,655)</u>
Net change in non-cash working capital items		
Due to related parties	185,585	-
Accounts payable and accrued liabilities	37,444	(5,469)
	<u>145,851</u>	<u>(28,124)</u>
<b>Investing</b>		
Investment and advances, net	68,700	-
Mineral properties	(499,921)	(9,470)
Capital assets	(107,346)	-
	<u>(538,567)</u>	<u>(9,470)</u>
<b>Financing</b>		
Advances	438,356	-
Issue of common shares	5,000	325,541
Due to related parties	-	(362,442)
	<u>443,356</u>	<u>(36,901)</u>
<b>Increase (decrease) in cash during the period</b>	<b>50,640</b>	<b>(74,495)</b>
<b>Cash - Beginning of the period</b>	<b>115,532</b>	<b>77,388</b>
<b>Cash - End of the period</b>	<b>\$ 166,172</b>	<b>\$ 2,893</b>

# **BRC Diamond Corporation**

(formerly BRC Development Corporation)

Notes to the Consolidated Financial Statements

(unaudited)

**March 31, 2005**

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## **1. CONTINUATION OF THE BUSINESS**

Effective August 11, 2004, BRC Diamond Corporation (the “Corporation”) was continued under the *Canada Business Corporations Act* (the Corporation was formerly governed by the Ontario *Business Corporations Act*) and changed its name from BRC Development Corporation.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations.

These financial statements do not include any adjustments to the recoverability and classification of certain recorded assets amounts and classification of certain liabilities that might be necessary, if the Corporation were unable to continue as a going concern.

The principal business of the Corporation is the acquisition and exploration of mineral properties. The recoverability of amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain financing to complete the development of the properties where necessary and upon future profitable production, or, alternatively, upon the Corporation’s ability to recover its spent costs through a disposition of its interests, all of which are uncertain.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### *Basis of consolidation*

These financial statements represent the consolidated financial statements of the Corporation, which include its accounts and those of its wholly-owned subsidiary, BRC Congo Development SPRL (the “Subsidiary”), a company incorporated under the laws of the Democratic Republic of the Congo (“DRC”). All inter-company balances and charges have been eliminated.

### *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Assets which require management to make significant estimates and assumptions in determining carrying values include investment and mineral properties. Actual results could differ from those estimates.

# **BRC Diamond Corporation**

(formerly BRC Development Corporation)

Notes to the Consolidated Financial Statements

(unaudited)

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## *Investment*

The Corporation holds an investment in Nevada Bob's International Inc. ("NBI"), a franchisor of golf equipment and apparel, through its common share holdings. The investment is accounted for under the cost method, as management does not have the ability to exercise significant influence over NBI. This investment is carried at cost, less any write-down arising from an other than temporary decline in the value of the investment.

## *Mineral properties*

Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalized until such time as either economically recoverable reserve are established, the properties are sold or abandoned, or the value of the particular property is impaired. The excess of these costs over estimated recoveries is charged to operations. The ultimate recovery of these costs depends on the discovery and development of economic reserves or the sale of the mineral rights. The amounts shown for non-producing resource properties do not necessarily reflect present or future values. In addition, the Corporation's exploration opportunities in the DRC, may be subject to sovereign risks, including political and economic instability, government regulations relating to mining, military repression, civil disorder, currency fluctuations and inflation, all or any of which may impede the Corporation's activities in this country or may result in the impairment or loss of part or all of the Corporation's interest in the properties.

## *Capital assets*

Capital assets of the Corporation are recorded at cost. Depreciation of capital assets is recorded as follows:

Leasehold improvement	- straight line over five years
Office equipment	- straight line over three years
Vehicle	- straight line over four years
Communication equipment	- straight line over three years

## *Stock options*

The Corporation's stock option plans are described in Note 8b. The Corporation has adopted the fair value method of accounting for stock options granted to directors, officers and employees whereby the weighted average fair value of options granted is recorded as compensation expense. Compensation expense on stock options granted is recognized and amortized over the vesting period. Any consideration paid on the exercise of stock options is credited to share capital.

## *Income taxes*

The Corporation follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the substantially enacted income tax rates for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce future income tax assets to amounts expected to be realized.

# **BRC Diamond Corporation**

(formerly BRC Development Corporation)

Notes to the Consolidated Financial Statements

(unaudited)

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## *Earnings (loss) per share*

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of shares outstanding during the reporting period. In computing diluted earnings per share, the dilutive effects of outstanding stock options and warrants are determined using the treasury stock method.

## *Foreign currency translation*

These consolidated financial statements are presented in Canadian dollars. The Company's measurement currency is the Canadian dollar and the measurement currency for the Company's subsidiary is the U.S. dollar.

Accounts of the subsidiary denominated in U.S. dollars have been translated into Canadian dollars as follows:

- Monetary assets and liabilities are translated at the spot rates of exchange in effect at the end of the period;
- Non-monetary items are translated at historical exchange rates in effect on the date of the transactions;
- Revenue and expense items are translated at average rates of exchange in effect during the period; and
- Exchange differences resulting from translation are recorded as an income or expense item in the period.

### **3. CHANGE IN ACCOUNTING POLICY**

Effective January 1, 2004, the Corporation adopted the Canadian Institute of Chartered Accountants handbook section 3870, "stock-based compensation and other stock-based payments", ("CICA 3870") which requires that the Corporation use the fair-value based method of accounting and to recognize as compensation expense its stock based compensation for employees. CICA 3870 requires that the Corporation recognize compensation expense over the vesting period for options granted to the directors, officers and employees. Previously, the Corporation accounted for its stock-based compensation plan using the intrinsic value based method and accordingly, did not recognize compensation expense in the consolidated financial statements for stock options granted to directors, officers and employees issued at market value.

### **4. RELATED PARTY TRANSACTIONS**

#### *a) Due to related parties*

During the three months ended March 31, 2005, the Corporation incurred management fees of \$24,161 (March 31, 2004 - \$12,000) to two officers and directors of the Corporation, for services rendered during the period. At March 31, 2005, \$37,247 (December 31, 2004 - \$25,247) was payable to a director and officer of the Corporation.

During the three month period ended March 31, 2005, a company controlled by a director and officer of the Corporation advanced total cash amount of \$177,620 to the Corporation for working capital purposes. At March 31, 2005, \$388,981 (December 31, 2004 - \$211,361) was due to this company.

# **BRC Diamond Corporation**

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## *b) Other transactions*

During the three month period ended March 31, 2005, legal fees of \$35,733 (March 31, 2004 - \$4,231) were billed to the Corporation by a law firm of which two partners are also insiders of the Corporation.

These transactions are in the normal course of operations and are measured at the exchange value. All amounts due to related parties are unsecured, non-interest bearing and repayable upon demand.

## **5. INVESTMENT IN NEVADA BOB'S INTERNATIONAL INC.**

As at March 31, 2005, the Corporation held 3.08% (December 31, 2004 - 3.08%) of the issued and outstanding common shares of NBI. At December 31, 2004, this investment was written down to its quoted market value to recognize a loss in value of \$1,157,266 due to a prolonged period during which the quoted market value of the Corporation's investment in NBI's shares has been less than its carrying value. The impairment was considered to be an other than temporary decline in value. The revised carrying value for this investment as at March 31, 2005 is \$91,993 (December 31, 2004 - \$91,993).

## **6. MINERAL PROPERTIES**

As at March 31, 2005, the Corporation held title to 13 Prospecting Research Permits ("PR") for diamonds in the Lubao district of the DRC. The properties, which represent a surface area of approximately 4,900 square kilometres, are located in Kasai-Oriental, historically the largest diamond producing region of the DRC. The DRC Mining Code gives the PR holder exclusive rights for a period of four years, renewable for two additional two-year periods. Upon discovery of an economically viable deposit, the holder can apply for a Permit of Exploitation. The Corporation has also submitted additional PR applications for which it expects to receive titles shortly.

During the three month period ended March 31, 2005, the Corporation entered into exclusive option agreements with three private Congolese companies to fund exploration in respect of an aggregate of 117 PRs for diamonds in the Provinces of Bas-Congo, Bandundu and Kasai Occidental in the southwest region of the DRC. These PRs, which represent a surface area of approximately 38,500 square kilometres, are located north of and contiguous to the Angolan border and lie within the prospective Kwango and Tshikapa alluvial diamond fields. The PRs contemplated under these exclusive option agreements are valid for four years, renewable for two additional two-year periods under the DRC Mining code.

In addition to the mineral properties in the DRC, as at March 31, 2005, the Corporation held 13 mining claims in Fenton Township in northern Ontario, Canada. During the three month period ended March 31, 2005, the Corporation acquired four additional mining claims in Fenton Township and allowed the four mining claims located in the Menary Township to expire. The acquisition cost of these Menary Township claims of \$4,109 was written-off at December 31, 2004.

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## 7. CAPITAL ASSETS

	As at March 31, 2005		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Communication equipment	\$ 12,001	\$ 1,980	\$ 10,021
Office equipment	7,958	1,313	6,645
Vehicle	107,346	-	107,346
Leasehold improvements	225,120	206,360	18,760
	<u>\$ 352,425</u>	<u>\$ 209,653</u>	<u>\$ 142,772</u>

	As at December 31, 2004		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Communication equipment	\$ 12,001	\$ 990	\$ 11,011
Office equipment	7,958	657	7,301
Leasehold improvements	225,121	195,104	30,017
	<u>\$ 245,080</u>	<u>\$ 196,751</u>	<u>\$ 48,329</u>

## 8. CAPITAL STOCK

### a) Share capital

	Number of Shares	Amount
Balance, December 31, 2003	8,685,000	\$ 1,273,840
Exercise of options	110,000	95,100
Exercise of warrants	400,000	96,000
Debt settlement	244,032	323,541
Balance, December 31, 2004	9,439,032	\$ 1,788,481
Exercise of warrants	25,000	6,000
Balance, March 31, 2005	9,464,032	\$ 1,794,481

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The authorized share capital of the Corporation is comprised of an unlimited number of common shares.

On March 10, 2004, as part of a debt settlement agreement, the Corporation issued 244,032 common shares to Banro Corporation, a significant shareholder of the Corporation, at a price of \$1.35 per share. In exchange for the shares, \$329,443 of debt owed by the Corporation to Banro Corporation was settled.

*b) Stock option plan*

In March 2004, the Board of Directors of the Corporation approved a new stock option plan under which non-transferable options to purchase common shares of the Corporation may be granted by the Board of Directors to any director, officer, employee or consultant of the Corporation or any subsidiary of the Corporation. The new stock option plan contains provisions providing that the term of an option may not be longer than five years, the maximum number of common shares that may be issued pursuant to the exercise of options granted under the plan is 1,100,000 and the exercise price of an option shall not be lower than the market price of the Corporation's shares at the time of grant.

As at March 31, 2005, the Corporation had outstanding 685,000 stock options. There were 435,000 stock options outstanding on December 31, 2004. The following table summarizes information about stock options outstanding and exercisable at March 31, 2005:

Date of Grant	Number outstanding at 12/31/2004	Option granted during the period	Options Exercised, Expired or Forfeited	Number outstanding at 03/31/05	Options Exercisable at 03/31/05	Exercise price	Expiry Date
01/17/03	40,000	-	-	40,000	40,000	\$ 0.20	01/17/08
11/19/03	120,000	-	-	120,000	120,000	\$ 0.50	11/19/08
04/14/04	225,000	-	-	225,000	112,500	\$ 1.50	04/14/09
10/06/04	50,000	-	-	50,000	12,500	\$ 2.00	10/06/09
03/04/05	-	25,000	-	25,000	6,250	\$ 2.10	03/04/10
03/18/05	-	225,000	-	225,000	56,250	\$ 2.50	03/18/10
	435,000	250,000	-	685,000	347,500		

During the three month period ended March 31, 2005, the Company recognized in the statement of operations as an expense \$49,596 representing the weighted average grant-date fair value of stock options granted to employees, directors and officers under the Company's stock option plan. In addition, the Company recognized consulting fees of \$51,212 representing the fair value of stock options granted to consultants under the Company's stock option plan. These amounts were credited accordingly to contributed surplus in the balance sheet.

# **BRC Diamond Corporation**

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The Black-Scholes option-pricing model was used to estimate the fair values of all stock options granted in 2005 and 2004 based on the following weighted average information:

(i) risk-free interest rate: 3.13% (2004 – 2.91%)

(ii) expected volatility: 124.95% (2004 – 120%)

(iii) expected life: 2 years (2004 – 2 years)

(iv) expected dividends: \$Nil (2004 - \$Nil)

*c) Loss per share*

The loss per share figures for the three month periods ended March 31, 2005 and March 31, 2004 are calculated using the weighted average number of shares outstanding during the respective accounting periods amounting to 9,456,810 and 8,231,389 common shares respectively. The calculations of basic and diluted loss per share amounts are identical. All common share options and warrants were excluded from the calculation of diluted loss per share as their effect would have been anti-dilutive.

## **9. FINANCIAL INSTRUMENTS**

The fair value of the Corporation's financial instruments, including cash, accounts payable and amounts due to related parties, approximates their carrying value due to the short-term nature of these instruments. The Corporation's investment in NBI is carried at cost, less any write-down arising from an other than temporary decline in the value of the investment (Note 5).

The Corporation does not enter into any derivative instrument arrangements for hedging or speculative purposes.

## **10. SUBSEQUENT EVENTS**

On April 29, 2005, the Company completed a previously announced private placement of 1,000,000 common shares of the Company at a price of \$2.50 per share for gross proceeds of \$2,500,000.