

Interim Consolidated Financial Statements of

BRC Diamond Corporation

March 31, 2006

NOTICE TO READER

These interim consolidated financial statements of BRC Diamond Corporation as at and for the three month period ended March 31, 2006 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

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BRC Diamond Corporation

Consolidated Balance Sheets

| | As at March 31, 2006 <u>(unaudited)</u> | As at December 31, 2005 |
|--|--|-------------------------------|
| ASSETS | | |
| CURRENT | | |
| Cash | \$ 4,959,352 | \$ 77,076 |
| Prepaid expenses and other assets | 73,807 | 56,132 |
| Due from related parties (Note 3(b)) | 74,777 | 51,967 |
| | 5,107,936 | 185,175 |
| INVESTMENT AND ADVANCES (Note 4) | 91,993 | 91,993 |
| MINERAL PROPERTIES (Note 5) | 3,611,519 | 2,752,443 |
| CAPITAL ASSETS (Note 6) | 199,517 | 216,130 |
| | \$ 9,010,965 | \$ 3,245,741 |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | \$ 381,039 | \$ 322,362 |
| Due to related parties (Note 3 (a)) | 264,505 | 621,015 |
| | 645,544 | 943,377 |
| COMMITMENT (Note 9) | | |
| SHAREHOLDERS' EQUITY | | |
| CAPITAL STOCK (Note 7(a)) | 9,979,553 | 3,934,558 |
| WARRANTS (Note 7(d)) | 206,856 | 95,136 |
| CONTRIBUTED SURPLUS (Note 7(b)) | 995,580 | 880,338 |
| DEFICIT | (2,816,568) | (2,607,668) |
| | 8,365,421 | 2,302,364 |
| | \$ 9,010,965 | \$ 3,245,741 |

BRC Diamond Corporation

Consolidated Statements of Operations and Deficit Three month periods ended March 31, 2006 and 2005 (unaudited)

| | <u>2006</u> | <u>2005</u> |
|---|-----------------------|-----------------------|
| Expenses | | |
| Consulting fees | \$ 5,574 | \$ 58,718 |
| Professional fees | 17,355 | 35,733 |
| Management fees | 37,000 | 24,161 |
| General and administrative | 39,995 | 7,204 |
| Stock-based compensation | 109,668 | 49,396 |
| Depreciation | - | 11,256 |
| Foreign exchange gain/loss | (523) | 2,582 |
| Loss before the under noted items | (209,069) | (189,050) |
| Interest income | 169 | 9 |
| Net loss for the period | (208,900) | (189,041) |
| Deficit - beginning of the period | (2,607,668) | (1,487,438) |
| Deficit - end of the period | \$ (2,816,568) | \$ (1,676,479) |
| Basic and diluted loss per share (Note 7(c)) | \$ (0.02) | \$ (0.02) |
| Weighted average number of common shares outstanding | 10,801,810 | 9,456,810 |

BRC Diamond Corporation

Consolidated Statements of Cash Flows Three month periods ended March 31, 2006 and 2005 (unaudited)

| | 2006 | 2005 |
|---|------------------|-------------------|
| Net (outflow) inflow of cash related to the following activities | | |
| Operating | | |
| Net loss for the year | \$ (208,900) | \$ (189,041) |
| Items not affecting cash | | |
| Stock-based compensation | 115,242 | 100,607 |
| Depreciation | - | 11,256 |
| | <u>(93,658)</u> | <u>(77,178)</u> |
| Net change in non-cash working capital items | | |
| Prepaid expenses and other assets | (17,675) | - |
| Accounts payable and accrued liabilities | 58,677 | 37,444 |
| Due from related parties | (22,810) | - |
| Due to related parties | (356,510) | 185,585 |
| | <u>(431,976)</u> | <u>145,851</u> |
| Investing | | |
| Investment and advances | - | 68,700 |
| Mineral properties | (838,315) | (499,921) |
| Capital assets | (4,148) | (107,346) |
| | <u>(842,463)</u> | <u>(538,567)</u> |
| Financing | | |
| Issuance of common shares and warrants | 6,156,715 | 5,000 |
| Advances | - | 438,356 |
| | <u>6,156,715</u> | <u>443,356</u> |
| Increase in cash during the period | 4,882,276 | 50,640 |
| Cash - Beginning of the period | 77,076 | 115,532 |
| Cash - End of the period | 4,959,352 | \$ 166,172 |
| SUPPLEMENTAL FINANCIAL INFORMATION | | |
| Interest paid | \$ - | \$ - |
| Income taxes paid | \$ - | \$ - |

Depreciation of capital assets of \$20,760 was capitalized to mineral properties during the three month period ended March 31, 2006 (March 31, 2005 - \$8,297).

BRC Diamond Corporation

Notes to the Consolidated Financial Statements

March 31, 2006

(unaudited)

1. CONTINUATION OF THE BUSINESS

The principal business of BRC Diamond Corporation (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.

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. While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions may cast substantial doubt upon the validity of this assumption. In the event the Corporation is unable to identify recoverable reserves and resources, receive the necessary permitting, or arrange appropriate financing, the carrying value of the Corporation’s assets could be subject to material adjustment.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These financial statements represent the consolidated financial statements of the Corporation, which includes 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 the investment and mineral properties. Actual results could differ from those estimates.

BRC Diamond Corporation

Notes to the Consolidated Financial Statements

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Investment

The Corporation holds an investment in Nevada Bob's International Inc. ("NBI"), a licensor of certain trademarks, 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 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 improvements | - straight line over five years |
| Office equipment | - straight line over three years |
| Motor vehicles | - straight line over four years |
| Communication equipment | - straight line over three years |
| Mining equipment | - straight line over two years |

Stock options

The Corporation's stock option plans are referred to in Note 7(b). Stock-based compensation is recorded using 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 in the consolidated financial statements. Compensation expense on stock options granted is recognized and amortized over the vesting period, with the offset being credited to contributed surplus, which will transfer to share capital as the related options are converted. Compensation expense on stock options granted to non-employees is recorded as an expense in the period at the earlier of the completion of performance and the date the options are vested using the fair value method. Any consideration paid for shares purchased under the stock option plan is credited to share capital.

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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 be recovered or settled. Valuation allowances are established when necessary to reduce future income tax assets to amounts expected to be realized.

Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding during the reporting period. Common share options and warrants are excluded from the calculation of diluted loss per share amounts, as applicable, to the extent that their effect would be anti-dilutive.

Foreign currency translation

These consolidated financial statements are presented in Canadian dollars. The Corporation's measurement currency is the Canadian dollar and the measurement currency for the Corporation'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 period end exchange rates;
- 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.

Variable interest entities

Effective January 1, 2005, the Corporation adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants ("CICA") to account for variable interest entities ("VIE's"). This new standard recognizes that a controlling financial interest in an entity may exist through arrangements that do not involve a voting interest. Such entities are considered to be variable interest entities and can arise from a variety of legal structures. By definition, these entities either: lack enough equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; have equity owners who are unable to make decisions about the entity; or, have equity owners that do not have the obligation to absorb the entity's expected losses or the right to receive the entity's expected residual returns. The primary beneficiary of a VIE is determined by identifying the party that will absorb the majority of the VIE's expected losses, receive a majority of the expected returns, or both. The primary beneficiary is required to consolidate the entity in their consolidated financial statements. Implementation of this standard has had no impact on the Corporation's financial position or results of operations.

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3. RELATED PARTY TRANSACTIONS

a) Due to related parties

During the three month period ended March 31, 2006, the Corporation incurred management fees of \$37,000 (March 31, 2005 - \$24,161) to two officers and directors of the Corporation, for services rendered during the period. An amount of \$118,183 payable to an officer and director of the Corporation and outstanding at December 31, 2005 was repaid in full by the Corporation during the period. In addition, during the three month period ended March 31, 2006, the Corporation repaid an amount of \$238,327 due to Banro Corporation ("Banro"), a significant shareholder of the Corporation. At March 31, 2006, a balance of \$264,505 (December 31, 2005 - \$502,832) was due to Banro.

b) Due from related parties

During the three month period ended March 31, 2006, the Corporation advanced an additional \$22,810 to an investee of Banro, through its common share holdings, for working capital purposes. At March 31, 2006, an amount of \$74,777 (December 31, 2005 - \$51,967) was payable to the Corporation.

c) Other transactions

During the three month period ended March 31, 2006, legal fees of \$63,007 (March 31, 2005 - \$35,733) were billed to the Corporation by a law firm of which one partner is a director of the Company and another partner is an officer of the Corporation.

All amounts due to and from related parties are unsecured, non-interest bearing and repayable upon demand.

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(unaudited)

4. INVESTMENT

As at March 31, 2006, the Corporation held 2.37% (December 31, 2005 - 3.08%) of the issued and outstanding common shares of Nevada Bob's International Inc. ("NBI"), with carrying book value of \$91,993 (December 31, 2005 - \$91,993) and a quoted market value of approximately \$89,390 (December 31, 2005 - \$91,993). During the first quarter of 2006, NBI completed a private placement to raise capital, in which the Corporation did not participate. As a result, the Corporation's shareholding was reduced to 2.37% of the issued and outstanding shares of NBI as at March 31, 2006.

5. MINERAL PROPERTIES

As at March 31, 2006, the Corporation held title to 14 Prospecting Research Permits ("PRs") for diamonds in the Lubao district of the DRC. The properties, which represent a surface area of approximately 5,000 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 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. During the first quarter of 2006, the Corporation rationalized its option position on the Kwango river to concentrate on eight PRs. As a result, the number of PRs under option agreements has been reduced from 117 PRs to 33 PRs. These 33 PRs, which represent a surface area of approximately 11,000 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, 2006, the Corporation held 6 mining claims in Fenton Township in northern Ontario, Canada. During 2005, the Corporation acquired four additional mining claims in Fenton Township and allowed the four mining claims located in Menary Township in northern Ontario, Canada to expire. Deferred exploration costs related to these Menary Township claims of \$30,833 capitalized under Mineral Properties in the balance sheet was written-off during 2005.

Since its inception in 1990, the Corporation has incurred deferred exploration expenditures of \$3,611,519 in Canada and in the DRC as at March 31, 2006 as follows:

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a) Fenton/Menary project (Canada)

| | Three months ended March 31, 2006 | Year ended December 31, 2005 | Cumulative from inception in 1990 to March 31, 2006 |
|---|---|------------------------------------|---|
| Mineral property costs | | | |
| Claims and staking | - \$ | 5,545 | \$ 66,306 |
| Write-off | - | - | (50,009) |
| Total mineral costs | - | 5,545 | 16,297 |
| Deferred exploration expenditures | | | |
| Field camp expenses | - | - | 88,829 |
| Surveying | - | - | 60,515 |
| Geochemistry | - | - | 5,554 |
| Geology – contract geologists | - | - | 47,378 |
| Drilling | - | - | 232,356 |
| Professional fees | - | - | 10,525 |
| Write-off | - | (30,833) | (30,833) |
| Total deferred exploration expenditures | - | (30,833) | 414,323 |
| Total mineral properties and deferred exploration expenditures | -\$ | (25,288) | \$ 430,620 |

b) Lubao/Kwango project (DRC)

| | Three months ended March 31, 2006 | Year ended December 31, 2005 | Cumulative from inception in 1990 to March 31, 2006 |
|---|---|------------------------------------|--|
| Mineral property costs | | | |
| Claims and staking | \$ - | \$ - | \$ 2,878 |
| Write-off | - | - | - |
| Total mineral costs | - | - | 2,878 |
| Deferred exploration expenditures | | | |
| Field camp expenses | 56,677 | 415,077 | 471,754 |
| Geochemistry | - | 5,961 | 5,961 |
| Geophysics | 351,529 | - | 351,529 |
| Geology – contract geologists | 192,554 | 350,493 | 543,047 |
| Drilling | 96,124 | - | 96,124 |
| Professional fees | 1,963 | 63,471 | 87,915 |
| Transport cost and helicopter | 54,729 | 465,043 | 519,772 |
| Permits and surface taxes | - | 377,991 | 395,218 |
| Option fees | - | 187,674 | 187,674 |
| Administrative and office support | 84,740 | 333,647 | 440,882 |
| Depreciation | 20,760 | 55,738 | 78,145 |
| Total deferred exploration expenditures | 859,076 | 2,255,095 | 3,178,021 |
| Total mineral properties and deferred exploration expenditures | \$ 859,076 | \$ 2,255,095 | \$ 3,180,899 |

BRC Diamond Corporation

Notes to the Consolidated Financial Statements March 31, 2006 (unaudited)

6. CAPITAL ASSETS

| | As at March 31, 2006 | | |
|-------------------------|-----------------------------|-------------------------------------|---------------------------|
| | Cost | Accumulated Depreciation | Net Book Value |
| Communication equipment | \$ 15,314 | \$ 5,108 | \$ 10,206 |
| Office equipment | 14,560 | 6,535 | 8,025 |
| Motor vehicles | 200,399 | 53,935 | 146,464 |
| Mining equipment | 47,388 | 12,566 | 34,822 |
| Leasehold improvements | 225,121 | 225,121 | - |
| | \$ 502,782 | \$ 303,265 | \$ 199,517 |

| | As at December 31, 2005 | | |
|-------------------------|--------------------------------|-------------------------------------|---------------------------|
| | Cost | Accumulated Depreciation | Net Book Value |
| Communication equipment | \$ 14,771 | \$ 3,845 | \$ 10,926 |
| Office equipment | 14,560 | 5,334 | 9,226 |
| Motor vehicles | 200,399 | 41,410 | 158,989 |
| Mining equipment | 43,784 | 6,795 | 36,989 |
| Leasehold improvements | 225,121 | 225,121 | - |
| | \$ 498,635 | \$ 282,505 | \$ 216,130 |

During the three month period ended March 31, 2006, \$20,760 of depreciation was included in the deferred exploration expenditures (see Note 5) (March 31, 2005 - \$8,297).

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Notes to the Consolidated Financial Statements

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7. CAPITAL STOCK

a) *Share capital*

| | Number of Shares | Amount |
|----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Balance, December 31, 2004 | 9,439,032 | \$ 1,788,481 |
| Shares issued for cash | 1,000,000 | 2,140,077 |
| Exercise of warrants | 25,000 | 6,000 |
| <hr/> | | |
| Balance, December 31, 2005 | 10,464,032 | \$ 3,934,558 |
| Shares issued for cash | 1,900,000 | 6,044,995 |
| <hr/> | | |
| Balance, March 31, 2006 | 12,364,032 | \$ 9,979,553 |
| <hr/> | | |

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

On April 29, 2005, the Corporation completed a private placement of 1,000,000 common shares of the Corporation at a price of \$2.50 per share resulting in aggregate gross proceeds to the Corporation of \$2,500,000. Kingsdale Capital Markets Inc. (the "Agent") acted as the Corporation's agent in connection with the financing. In consideration for its services, the Corporation paid to the Agent a cash fee equal to 6% of such gross proceeds and issued to the Agent 60,000 broker warrants, with each such broker warrant entitling the holder to purchase one common share of the Corporation at a price of \$2.50 for a period of one year.

In March 2006, the Corporation completed a private placement of 1,900,000 common shares of the Corporation at a price of \$3.50 per share resulting in aggregate gross proceeds of \$6,650,000. Kingsdale Capital Markets Inc. (the "Agent") acted as the Corporation's agent in connection with the financing. In consideration for its services, the Corporation paid to the Agent a cash commission equal to 6% of such gross proceeds and issued to the Agent 114,000 broker warrants, with each such broker warrant entitling the holder to purchase one common share of the Corporation at a price of \$3.50 for a period of one year.

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. This 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 1,900,000 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.

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As at March 31, 2006, the Corporation had outstanding 910,000 stock options (December 31, 2005 – 910,000). The following table summarizes information about stock options outstanding and exercisable at March 31, 2006:

| Date of Grant | Number outstanding at 12/31/2005 | Options granted during the year | Options Exercised, Expired or Forfeited | Number outstanding at 03/31/06 | Options Exercisable at 03/31/06 | 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 | 225,000 | \$ 1.50 | 04/14/09 |
| 10/06/04 | 50,000 | - | - | 50,000 | 37,500 | \$ 2.00 | 10/06/09 |
| 03/04/05 | 25,000 | - | - | 25,000 | 18,750 | \$ 2.10 | 03/04/10 |
| 03/18/05 | 225,000 | - | - | 225,000 | 168,750 | \$ 2.50 | 03/18/10 |
| 04/29/05 | 225,000 | - | - | 225,000 | 112,500 | \$ 2.50 | 04/29/10 |
| | 910,000 | - | - | 910,000 | 722,500 | | |

During the three month period ended March 31, 2006, the Corporation recognized in the statement of operations as compensation expense \$109,668 (March 31, 2005 - \$49,596) representing the fair value of stock options previously granted to employees, directors and officers under the Corporation's stock option plan. In addition, the Corporation recognized consulting fees of \$5,574 (March 31, 2005 - \$51,212) representing the fair value of stock options previously granted to consultants under the Corporation's stock option plan. These amounts were credited accordingly to contributed surplus in the balance sheet.

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 factors:

- (i) risk-free interest rate: 2.91% to 3.30%
- (ii) expected volatility: 117.97% to 129.32%
- (iii) expected life: 2 to 5 years
- (iv) expected dividends: Nil %

c) *Loss per share*

The loss per share figures for the three month periods ended March 31, 2006 and 2005 are calculated using the weighted average number of shares outstanding during the respective accounting periods amounting to 10,801,810 and 9,456,810 common shares. 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.

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d) Warrants

As at March 31, 2006, the Corporation had 174,000 warrants outstanding (December 31, 2005 - 60,000) with an ascribed value of \$206,856 (see note 7(a)).

8. FINANCIAL INSTRUMENTS

The fair value of the Corporation's financial instruments, including cash, accounts payable and amounts due to and from 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 4).

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

The Corporation's Subsidiary in the DRC operates using principally the U.S. dollar and the Congolese Franc, and as such may be negatively affected by fluctuations in foreign exchange rates when translating from the currency of measurement of the Corporation's Subsidiary to the Corporation's reporting currency. The Corporation does not hedge its foreign exchange rate exposure.

9. COMMITMENT

The Corporation is committed to an annual payment of approximately \$250,000 in surface taxes under the option agreements signed with three private Congolese companies as disclosed in note 5. The surface fees are required under the DRC Mining Code in order to keep PRs in good standing.

Form 51-102F1

**BRC DIAMOND CORPORATION
INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS - FIRST QUARTER 2006**

The following management's discussion and analysis ("MD&A"), which is dated as of May 30, 2006, provides a review of the activities, results of operations and financial condition of BRC Diamond Corporation (the "**Company**") as at and for the three month period ended March 31, 2006, as well as future prospects of the Company. This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Company as at and for the three month period ended March 31, 2006, together with the MD&A and audited consolidated financial statements of the Company as at and for the year ended December 31, 2005. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Forward-Looking Statements

This MD&A contains forward-looking statements that are based on the Company's current expectations and estimates. Forward-looking statements are frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate", "estimate" and other similar words or statements that certain events or conditions "may" or "will" occur, and include, without limitation, statements regarding the Company's plans and objectives with respect to its mineral properties. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause actual events or results to differ materially from estimated or anticipated events or results implied or expressed in such forward-looking statements. Factors that could cause such differences include changes in world equity markets, political developments in the Democratic Republic of the Congo (the "**DRC**"), changes to regulations affecting the Company's activities, uncertainties relating to the availability and costs of financing needed in the future, the uncertainties involved in interpreting exploration results and the other risks involved in the diamond exploration industry. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

Lloyd J. Bardswich, P. Eng., the Company's President and C.E.O. and a "qualified person" as defined in National instrument 43-101, has reviewed and approved the technical information in this MD&A.

General

The Company's operations consist of the exploration of mineral properties in the DRC and in Canada. The Company is presently focused on the exploration of diamond properties in the DRC. During the first quarter of 2006 and up to the date of this MD&A, the Company continued its exploration activities in the DRC at its Lubao, Kwango River and Tshikapa projects.

Exploration at Lubao has to date consisted primarily of stream sediment sampling designed to locate concentrations of kimberlite indicator minerals and an airborne magnetometer survey. Samples taken from the Lubao project have been submitted to the MSA Geoservices laboratory (which is independent of the Company) in Johannesburg, South Africa, where kimberlitic indicator mineral sorting, surface texture description and indicator mineral analysis are being

performed. All samples have been concentrated using two Armstrong jigs. In May 2006, UTS Geophysics of Australia completed an 11,500 line kilometer airborne magnetometer survey at the Lubao property. Data from the magnetometer survey and the stream sediment sampling program will be integrated to facilitate identification of targets for drill testing in the second half of 2006.

In March 2006, the Company began a stream sediment sampling program targeting anomalies on its Tshikapa project. The sampling program is scheduled for completion in the second half of 2006. As of May 27, 2006, over 200 stream sediment samples had been collected. In May 2006, UTS Geophysics began an airborne magnetometer gradiometer survey of the Company's Tshikapa project. Approximately 38,380 line kilometers are expected to be flown over the project area at a line spacing of 200 meters. This survey, which is expected to be completed by the end of June, will be followed by a ground program designed to further investigate any magnetic and heavy mineral anomalies.

During the first quarter of 2006, the Company rationalized its option position on the Kwango River and will concentrate on eight Prospecting Research Permits covering an area of 2,150 square kilometres between Tembo and Kasonga Lunda, a distance of approximately 200 kilometres. Exploration at the Kwango River project during the first quarter of 2006 continued with ground geophysical surveys. A drilling program and an airborne electro-magnetic survey are expected to commence during the second quarter of 2006 on this project.

No exploration activities are presently scheduled on the Company's properties in Northern Ontario, Canada.

In March 2006, the Company completed a private placement of 1,900,000 common shares of the Company at a price of \$3.50 per share for gross proceeds of \$6,650,000. Kingsdale Capital Markets Inc. ("**Kingsdale**") acted as the Company's agent in connection with this financing. In consideration for its services, the Company paid to Kingsdale a cash commission equal to 6% of such gross proceeds and issued to Kingsdale 114,000 broker warrants, with each such broker warrant entitling the holder to purchase one common share of the Company at a price of \$3.50 for a period of one year.

Results of Operations

The Company's operations during the first quarter of 2006 ended with a net loss of \$208,900, or \$0.02 per share, compared to a net loss of \$189,041, or \$0.02 per share, incurred during the first quarter of 2005. The 10.50% increase in the Company's net loss during the quarter ended March 31, 2006 compared to the quarter ended March 31, 2005 was partly due to the recognition during the first quarter of 2006 of stock-based compensation expense of \$115,242, representing the fair value of stock options previously issued to consultants (\$5,574) and to employees, directors and officers of the Company (\$109,668). During the first quarter of 2005, the Company recognized stock-based compensation expense of \$100,607, representing the fair value of stock options issued to consultants (\$51,211) and to employees, directors and officers of the Company (\$49,396). In addition, management fees and general and administrative expenses, which included mainly travel and telecommunication expenses, also increased during the first quarter of 2006, compared to the corresponding period in 2005, as a result of the general increase in the Company's activities. However, professional fees, which included mainly legal fees, decreased to \$17,355 during the first quarter of 2006 from \$35,733 for the corresponding period in 2005.

Summary of Quarterly Results

The following table sets out certain unaudited consolidated financial information of the Company for each of the last eight quarters, beginning with the first quarter of 2006. This financial information has been prepared in accordance with Canadian generally accepted accounting principles. The Company's reporting currency is the Canadian dollar. The Company's measurement currency is the Canadian dollar and the measurement currency for the Company's subsidiary is the U.S. dollar.

| | 2006 | 2005 | 2005 | 2005 |
|--------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter |
| Net loss | \$ 208,900 | \$ 233,603 | \$ 372,413 | \$ 325,173 |
| Net loss per share | \$ 0.02 | \$ 0.02 | \$ 0.04 | \$ 0.03 |
| | 2005 | 2004 | 2004 | 2004 |
| | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter |
| Net loss | \$ 189,041 | \$ 1,355,183 | \$ 95,346 | \$ 89,929 |
| Net loss per share | \$ 0.02 | \$ 0.15 | \$ 0.01 | \$ 0.01 |

The Company's net loss for the first quarter of 2006 decreased by 10.57% to \$208,900 compared to the fourth quarter 2005 net loss mainly due to audit fees of \$36,300 accrued during the fourth quarter of 2005. The Company's net loss decreased by \$138,810 during the fourth quarter of 2005 compared to the third quarter of 2005 mainly due to decreased stock-based compensation expense accrued during the fourth quarter. During the third quarter of 2005, the Company's net loss increased by \$47,240 compared to the second quarter 2005 net loss due to a general increase in the Company's exploration activities in the DRC. Stock-based compensation expense of \$136,132 was the most significant factor explaining the increase in the Company's net loss for the second quarter of 2005, as compared to the first quarter of 2005. For the first quarter of 2005, the Company's net loss decreased by \$1,166,142, as compared to the net loss recorded for the fourth quarter of 2004, mainly due to the write down of the Company's investment in Nevada Bob's International Inc. ("NBI") of \$1,157,266 during the fourth quarter of 2004. The net loss recorded during the fourth quarter of 2004 increased significantly compared to the net loss incurred during the third quarter of 2004 as a result of the write down of the Company's investment in NBI as well as due to the recognition of stock-based compensation expense to consultants of \$112,873 during the fourth quarter of 2004. The increase in the Company's net loss during the third quarter of 2004, compared to the second quarter of 2004, was due to the increase in consulting and professional fees relating in part to the Company's reorganization to continue its business under the *Canada Business Corporations Act*.

Liquidity and Capital Resources

The Company does not currently generate revenues and relies primarily on equity financings to fund its activities. Although the Company has been successful in completing equity financings in the past, there is no assurance that the Company will secure the necessary financings in the future.

As at March 31, 2006, the Company had cash of \$4,959,352 and working capital of \$4,462,392, compared to cash of \$77,076 and a working capital deficiency of \$758,202 as at December 31, 2005. The improvement in the Company's working capital position was the result of a private placement of 1,900,000 common shares of the Company at a price of \$3.50 per share for gross proceeds of \$6,650,000 completed in March 2006 (the "**2006 Financing**"). During the second quarter of 2006, the Company received an additional \$150,000 from the exercise of 60,000 broker warrants (which had been issued in April 2005) at a price of \$2.50 per share.

The Company's current cash position is considered sufficient for planned exploration expenditures in the DRC and for general and administrative expenses until the end of 2006.

Mineral properties, which include deferred exploration expenditures, increased by \$859,076 during the first quarter of 2006 to \$3,611,519 from \$2,752,443 as at December 31, 2005, as a result of increased exploration activities in the DRC. The Company incurred cash exploration expenditures of \$838,315 during the first quarter of 2006 compared to \$499,921 for the corresponding period in 2005. A breakdown of exploration expenditures during the three month period ended March 31, 2006 is presented below under "Deferred Exploration Expenditures". In addition, during the three month period ended March 31, 2006, the Company acquired capital assets amounting to \$4,148 (compared to \$107,346 during the first quarter of 2005) required to support exploration activities in the DRC.

The Company is committed to an annual payment of approximately \$250,000 in surface taxes under the option agreements signed with three private Congolese companies as disclosed in note 5 to the Company's interim consolidated financial statements as at and for the three month period ended March 31, 2006. The surface fees are required under the DRC Mining Code in order to keep Prospecting Research Permits in good standing.

Deferred Exploration Expenditures

The following table provides a breakdown of the Company's deferred exploration expenditures:

| | <u>Fenton Township</u> | <u>Menary Township</u> | <u>DRC</u> | <u>Total</u> |
|-------------------------------|----------------------------|----------------------------|---------------------|---------------------|
| Balance 12/31/2004 | \$ 414,323 | \$ 30,833 | \$ 63,850 | \$ 509,006 |
| Field camp expenses | - | - | 415,077 | 415,077 |
| Geochemistry | - | - | 5,961 | 5,961 |
| Geology – contract geologists | - | - | 350,493 | 350,493 |
| Professional fees | - | - | 63,471 | 63,471 |
| Transport and helicopter | - | - | 465,043 | 465,043 |
| Permits and surface taxes | - | - | 377,991 | 377,991 |
| Option fees | - | - | 187,674 | 187,674 |
| Admin. and office support | - | - | 333,647 | 333,647 |
| Depreciation | - | - | 55,738 | 55,738 |
| Write-off | - | (30,833) | - | (30,833) |
| Balance 12/31/2005 | \$ 414,323 | \$ - | \$ 2,318,945 | \$ 2,733,268 |

| | <u>Fenton Township</u> | <u>DRC</u> | <u>Total</u> |
|-------------------------------|----------------------------|---------------------|---------------------|
| Balance 12/31/2005 | \$ 414,323 | \$ 2,318,945 | \$ 2,733,268 |
| Field camp expenses | - | 56,677 | 56,677 |
| Geophysics | - | 351,529 | 351,529 |
| Geology – contract geologists | - | 192,554 | 192,554 |
| Drilling | - | 96,124 | 96,124 |
| Professional fees | - | 1,963 | 1,963 |
| Transport and helicopter | - | 54,729 | 54,729 |
| Admin. and office support | - | 84,740 | 84,740 |
| Depreciation | - | 20,760 | 20,760 |
| Balance 03/31/2006 | <u>\$ 414,323</u> | <u>\$ 3,178,021</u> | <u>\$ 3,592,344</u> |

No exploration expenditures were capitalized during the first quarter of 2006 for the Fenton Township properties in Northern Ontario, Canada.

Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of common shares. As at May 30, 2006, the Company had outstanding 12,424,032 common shares, stock options to purchase an aggregate of 910,000 common shares of the Company, and warrants to purchase an aggregate of 114,000 common shares of the Company.

Related Party Transactions

During the three month period ended March 31, 2006, the Company incurred management fees of \$37,000 (March 31, 2005 - \$24,161) to two officers and directors of the Company for services rendered during the year. An amount of \$118,183 payable to an officer and director of the Company and outstanding at December 31, 2005 was repaid in full during the period.

During the first quarter of 2006, the Company repaid \$238,327 to Banro Corporation (“Banro”), a significant shareholder of the Company. As at March 31, 2006, a balance of \$264,505 was payable to Banro.

During the three month period ended March 31, 2006, the Corporation advanced an additional \$22,810 to an investee of Banro, through its common share holdings, for working capital purposes. At March 31, 2006, an amount of \$74,777 (December 31, 2005 - \$51,967) was payable to the Corporation.

During the three month period ended March 31, 2006, legal fees of \$63,007 (March 31, 2005 - \$35,733) were billed to the Company by a law firm of which one partner is a director of the Company and another partner is an officer of the Company. \$47,255 of these legal fees were incurred in connection with the 2006 Financing and have been charged to share capital.

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.

Risks and Uncertainties

The Company is subject to a number of risks and uncertainties that could significantly impact its operations and future prospects. The following discussion pertains to certain principal risks and uncertainties but is not, by its nature, all inclusive.

The Company's operations in the DRC are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on the Company's activities or may result in impairment or loss of part or all of the Company's DRC assets. In recent years, the DRC has experienced two wars and significant political unrest. Operating in the DRC may make it more difficult for the Company to obtain any required financing because of the perceived investment risk.

The only sources of future funds for further exploration programs which are presently available to the Company are the sale of equity capital, or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration. There is no assurance that such sources of financing will be available on acceptable terms, if at all. In the event that commercial quantities of minerals are found on the Company's properties, the Company does not have the financial resources at this time to bring a mine into production.

All of the Company's properties are in the exploration stage only and none of the properties contain a known body of commercial ore. The Company currently operates at a loss and does not generate any revenue from operations. The exploration and development of mineral deposits involve significant financial risks over a significant period of time which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. Major expenditures may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that the Company's exploration programs will result in a profitable commercial mining operation.

The Company's exploration and, if such exploration is successful, development of its properties is subject to all of the hazards and risks normally incident to mineral exploration and development, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage.

The natural resource industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself.