

*Interim Consolidated Financial Statements of*

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

*September 30, 2004*

**NOTICE TO READER**

These interim consolidated financial statements of BRC Diamond Corporation (formerly BRC Development Corporation) as at and for the nine month period ended September 30, 2004 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)

## **Table of Contents**

**September 30, 2004**

---

	<u>Page</u>
Table of Contents	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Retained Earnings	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5-11

# BRC DIAMOND CORPORATION

(formerly BRC Development Corporation)

## Consolidated Balance Sheets

	As at Sept. 30, 2004 (Unaudited)	As at December 31, 2003
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 3,369	\$ 77,388
Advances	25,392	-
	28,761	77,388
INVESTMENT (Note 4)	1,317,959	1,317,959
MINERAL PROPERTIES (Note 5)	474,012	464,552
DEFERRED PRE-OPERATING COSTS (Note 5)	22,771	22,481
CAPITAL ASSETS (Note 6)	41,273	75,041
	\$ 1,884,776	\$ 1,957,421
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable	\$ 93,512	\$ 70,838
Due to related parties	10,088	420,438
	103,600	491,276
<b>SHAREHOLDERS' EQUITY</b>		
CAPITAL STOCK (Note 7a)	1,721,695	1,250,154
WARRANTS	1,000	17,000
CONTRIBUTED SURPLUS	94,991	25,314
RETAINED EARNINGS (Loss)	(36,510)	173,677
	1,781,176	1,466,145
	\$ 1,884,776	\$ 1,957,421

# BRC DIAMOND CORPORATION

(formerly BRC Development Corporation)

## Consolidated Statements of Operations and Retained Earnings

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<b>Expenses</b>				
Consulting fees	34,839	\$ 6,000	72,177	\$ 18,000
Professional fees	34,682	6,421	51,990	22,416
Management fees	12,000	17,951	36,000	40,000
General and administrative	2,569	27,500	16,241	85,931
Foreign Exchange	-	(178)	11	98,995
Depreciation	11,256	11,256	33,768	33,768
	95,346	68,950	210,187	299,110
Interest Income	-	-	-	3
<b>Loss for the period</b>	(95,346)	(68,950)	(210,187)	(299,107)
<b>Retained earnings - Beginning of period</b>	58,836	389,281	173,677	619,438
<b>Retained earnings - End of period</b>	\$ (36,510)	\$ 320,331	\$ (36,510)	\$ 320,331
<b>Loss per share</b>	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)

# BRC DIAMOND CORPORATION

(formerly BRC Development Corporation)

## Consolidated Statements of Cash Flows

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Earnings (loss) for the period	\$ (95,346)	\$ (68,950)	\$ (210,187)	\$ (299,107)
Items not affecting cash				
Depreciation	11,256	11,256	33,768	22,768
Value of stock options issued	34,839	-	69,677	-
Net change in working capital items other than cash				
Other current assets	(25,392)	-	(25,392)	-
Accounts payable	32,233	4,798	22,674	(37,965)
	(42,410)	(52,896)	(109,460)	(303,304)
<b>Financing activities</b>				
Common shares issued	50,000	-	455,541	63,750
Change in amount due to related party	(17,818)	73,526	(410,350)	(539,852)
	32,182	73,526	45,191	(476,102)
<b>Investing activities</b>				
Mineral properties	-	(36,882)	(9,750)	(36,750)
Repayment of advance	-	-	-	713,300
	-	(36,882)	(9,750)	676,418
<b>Net increase (decrease) in cash during the period</b>	10,228	(16,252)	(74,019)	(102,988)
<b>Cash - Beginning of the period</b>	13,597	41,585	77,388	128,321
<b>Cash - End of the period</b>	\$ 3,369	\$ 25,333	\$ 3,369	\$ 25,333

# **BRC DIAMOND CORPORATION**

(formerly BRC Development Corporation)

## **Notes to the Consolidated Financial Statements**

**September 30, 2004**

**(unaudited)**

---

### **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. 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**

#### *Generally accepted accounting principles*

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.

#### *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. 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. Actual results could differ from those estimates.

#### *Investment*

The Corporation holds an investment in Nevada Bob's International Inc. ("NBI"), 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 will continue to be carried at cost and will be written down only when there has been a loss in value which is other than temporary.

# **BRC DIAMOND CORPORATION**

(formerly BRC Development Corporation)

## **Notes to the Consolidated Financial Statements**

**September 30, 2004**

**(unaudited)**

---

### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *Mineral properties*

Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalized until such time as either economically recoverable reserves 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.

#### *Capital assets*

Capital assets of the Corporation consist of leasehold improvements, which are being depreciated over the term of the lease.

#### *Stock options*

The Corporation's stock option plans are described in Note 7b. 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.

#### *Earnings per share*

Basic earnings (loss) per share are 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 have been determined using the treasury stock method instead of the imputed interest method.

#### *Deferred pre-operating costs*

The Corporation defers expenditures incurred during the pre-operating period of a business until such time as the business commences operations.

# **BRC DIAMOND CORPORATION**

(formerly BRC Development Corporation)

## **Notes to the Consolidated Financial Statements**

**September 30, 2004**

**(unaudited)**

---

### **3. CHANGE IN ACCOUNTING POLICIES**

Effective January 1, 2004, the Corporation has adopted the fair value based method of accounting for stock options granted subsequent to January 1, 2004 under its stock-based compensation plan. The new policy 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. INVESTMENT IN NEVADA BOB'S INTERNATIONAL INC. ("NBI")**

As at September 30, 2004, the Corporation held 3.08% (Dec. 31, 2003 - 3.56%) of the issued and outstanding common shares of NBI, with a book value of \$1,249,259 (2003 - \$1,249,259) and a market value of approximately \$181,000 (Dec. 31, 2003 - \$210,854). During 2003, NBI completed a private placement to raise capital, in which the Corporation did not participate. As a result, the Corporation's shareholding as at December 31, 2003, was reduced to 3.56% (2002 - 3.96%) of the issued and outstanding shares of NBI.

### **5. MINERAL PROPERTIES**

During 2003, the Corporation acquired seven additional mining claims, located in the Kenora/RainyRiver district of Ontario, for total consideration of \$6,049. Also during 2003, the Corporation did not renew all of its mining claims, allowing four claims in Fenton Township to expire during the year. The cost of acquisition of these claims, of \$4,109, was written-off. These transactions brought the Corporation's total number of mining claims in Ontario to thirteen, as at December 31, 2003. The Corporation incurred during 2003 total exploration expenditures of \$80,408 (2002 - \$Nil) on its thirteen mining claims.

In addition to the Ontario properties, the Corporation has begun developing exploration opportunities in the Democratic Republic of the Congo ("DRC"). To facilitate these exploration efforts, the Corporation incorporated in 2003 a local Congolese subsidiary, BRC Congo Development SPRL (the "Subsidiary"). The Subsidiary has applied for prospecting permits from the Mining Cadastral, the government agency in charge of all mining registrations under the Congolese Mining Code. The Subsidiary has obtained final approval for 13 prospecting permits from the Mining Cadastral in the DRC. The Subsidiary is considered to be in the pre-operating stage and all operating costs of the Subsidiary have been deferred until such time as the Subsidiary is able to begin exploration activities in the DRC. As at September 30, 2004, the Subsidiary has deferred exploration expenditures of \$22,771.

# BRC DIAMOND CORPORATION

(formerly BRC Development Corporation)

## Notes to the Consolidated Financial Statements

September 30, 2004

(unaudited)

### 6. CAPITAL ASSETS

	As at Sept. 30, 2004			As at Dec.
	Cost	Accumulated Depreciation	Net Book Value	31, 2003 Net Book Value
Leasehold improvements	\$ 225,121	\$ 183,848	\$ 41,273	\$ 75,041

### 7. CAPITAL STOCK

#### a) Share capital

	Number of Shares	Amount
Balance, December 31, 2002	8,000,000	\$ 1,158,376
Shares issued in private placement	425,000	39,778
Exercise of options	260,000	52,000
Balance, December 31, 2003	8,685,000	1,250,154
Exercise of options	110,000	52,000
Exercise of warrants	400,000	96,000
Debt settlement	244,032	323,541
Balance, Sept. 30, 2004	9,439,032	\$ 1,721,695

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

On February 10, 2003, the Corporation completed a non-brokered private placement by issuing 425,000 units of the Corporation ("unit") at a price of \$0.15 per unit, net of issuance costs of \$6,972, for total proceeds of \$56,778. Each unit consists of one common share of the Corporation and one warrant of the Corporation ("warrant"). Each warrant entitles the holder thereof to purchase one common share of the Corporation at a price of \$0.20 until February 10, 2005. On May 12, 2004, 400,000 of these warrants were exercised. The value ascribed to the remaining 25,000 warrants is \$1,000.

On March 10, 2004, as part of a debt settlement agreement, the Corporation issued 244,032 common shares to Banro Corporation ("Banro"), 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 was settled.

# BRC DIAMOND CORPORATION

(formerly BRC Development Corporation)

## Notes to the Consolidated Financial Statements

September 30, 2004

(unaudited)

---

### 7. CAPITAL STOCK (continued)

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. No new options may be granted under the Corporation's 1999 stock option plan which will be terminated upon the expiry, cancellation or exercise of the 160,000 stock options currently outstanding under such plan.

As at September 30, 2004, the Corporation had outstanding 385,000 stock options. There were 270,000 stock options outstanding on December 31, 2003. The following table summarizes information about stock options outstanding and exercisable at September 30, 2004:

Date of Grant	Number outstanding at 12/31/2003	Option granted during the period	Options Exercised, Expired or Forfeited	Number outstanding at 09/30/04	Options Exercisable at 09/30/04	Exercise price	Expiry Date
01/17/03	50,000	-	10,000	40,000	40,000	\$ 0.20	01/17/08
11/19/03	220,000	-	100,000	120,000	120,000	\$ 0.50	11/19/08
04/14/04	-	225,000	-	225,000	56,250	\$ 1.50	04/14/09
	270,000	225,000	110,000	385,000	216,250		

# BRC DIAMOND CORPORATION

(formerly BRC Development Corporation)

## Notes to the Consolidated Financial Statements

September 30, 2004

(unaudited)

---

### 7. CAPITAL STOCK (continued)

#### *b) Stock option plan (continued)*

During 2003, the weighted average grant-date fair value of 470,000 vested stock options granted to employees, directors and officers was \$95,745. No compensation cost was recognized in the income statement for these stock options. Had the fair value of these options been expensed, the net loss for the year ended December 31, 2003 would have been \$541,507 and the basic loss per share would have been \$0.06. On the date of grant, the weighted average fair value of 60,000 stock options granted during 2003 to consultants was \$25,314. This amount was recognized in the income statement as an expense and was credited accordingly to equity account.

During the nine month period ended September 30, 2004, the Corporation recognized in the income statement as an expense \$69,676 representing the weighted average grant-date fair value of stock options granted to consultants under the Corporation's stock option plan. This amount was credited accordingly to equity in the balance sheet.

The Black-Scholes option-pricing model was used to estimate the fair values of all stock options granted in 2004 and 2003 based on the following weighted average information:

- (i) risk-free interest rate: 2.81% (Dec. 2003 – 2.56%)
- (ii) expected volatility: 118% (Dec. 2003 – 80.30%)
- (iii) expected life: 2 years (Dec. 2003 – 3.04 years)
- (iv) expected dividends: \$Nil

#### *c) Warrants*

As at September 30, 2004, the Corporation had 25,000 warrants outstanding as described in note 7(a).

#### *d) Loss per share*

The loss per share figures for the nine month periods ended September 30, 2004 and 2003 are calculated using the weighted average number of shares outstanding during the respective accounting periods amounting to 9,091,834 and 8,971,862 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.

# BRC DIAMOND CORPORATION

(formerly BRC Development Corporation)

## Notes to the Consolidated Financial Statements

September 30, 2004

(unaudited)

---

### 8. RELATED PARTY TRANSACTIONS

a) *Due from related parties*

As at September 30, 2004, the Corporation had outstanding \$68,700 due from NBI. This amount, which is included in investment and advances on the consolidated balance sheet, was also outstanding at December 31, 2003 and is unsecured, non-interest bearing and repayable upon demand. In addition, an amount of \$25,392 was due from a company wholly-owned by a director of the Corporation

b) *Due to related parties*

As at September 30, 2004, the amount of \$10,088 was due to Banro, a significant shareholder of the Corporation

c) *Other transactions*

Management fees of \$36,000 (September 30, 2003 - \$40,000) were paid to a director of the Corporation during the nine month period ended September 30, 2004.

During the nine month period ended September 30, 2004, legal fees of \$49,950 (September 30, 2003 - \$19,721) 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/from related parties are unsecured, non-interest bearing and repayable upon demand.