

Interim Consolidated Financial Statements of

BRC DIAMOND CORPORATION
(formerly BRC Development Corporation)

September 30, 2005

NOTICE TO READER

These interim consolidated financial statements of BRC Diamond Corporation (formerly BRC Development Corporation) as at and for the three and nine month periods ended September 30, 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 September 30, 2005 (unaudited) | As at December 31, 2004 |
|------------------------------------------|-----------------------------------------------|-------------------------------|
| ASSETS | | |
| CURRENT | | |
| Cash | \$ 362,700 | \$ 115,532 |
| Advances | 36,471 | - |
| Prepaid expenses | 177,100 | - |
| | <u>576,271</u> | <u>115,532</u> |
| INVESTMENT AND ADVANCES (Note 5) | 91,993 | 160,693 |
| MINERAL PROPERTIES (Note 6) | 1,886,995 | 522,636 |
| CAPITAL ASSETS (Note 7) | 201,384 | 48,329 |
| | <u>\$ 2,756,643</u> | <u>\$ 847,190</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | \$ 355 | \$ 66,152 |
| Advances payable | 277,356 | - |
| Due to related parties (Note 4) | 103,844 | 242,174 |
| | <u>381,555</u> | <u>308,326</u> |
| SHAREHOLDERS' EQUITY | | |
| CAPITAL STOCK (Note 8(a)) | 4,029,694 | 1,788,481 |
| WARRANTS | - | 1,000 |
| CONTRIBUTED SURPLUS (Note 8(b)) | 719,459 | 236,821 |
| DEFICIT | (2,374,065) | (1,487,438) |
| | <u>2,375,088</u> | <u>538,684</u> |
| | <u>\$ 2,756,643</u> | <u>\$ 847,190</u> |

BRC Diamond Corporation

(formerly BRC Development Corporation)

Consolidated Statements of Operations and (Deficit) Retained Earnings (unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------------------------------------------|-------------------------------------|-----------------|------------------------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Expenses | | | | |
| Consulting fees (Note 8(b)) | \$ 69,212 | 34,839 | \$ 233,478 | 72,177 |
| Professional fees | 22,648 | 34,682 | 60,003 | 51,990 |
| Management fees | 57,073 | 12,000 | 99,411 | 36,000 |
| General and administrative | 31,618 | 2,569 | 81,939 | 16,241 |
| Stock-based compensation | 176,636 | - | 329,003 | - |
| Depreciation | 7,504 | 11,256 | 30,016 | 33,768 |
| Foreign exchange loss | 7,854 | - | 22,258 | 11 |
| Loss before the under noted items | (372,545) | (95,346) | (856,108) | (210,187) |
| Interest income | 132 | - | 314 | - |
| Write-down of mineral properties (Note 6) | - | - | (30,833) | - |
| Net loss for the period | (372,413) | (95,346) | (886,627) | (210,187) |
| (Deficit) Retained earnings - beginning of the period | (2,001,652) | 58,836 | (1,487,438) | 173,677 |
| (Deficit) Retained earnings - end of the period | \$(2,374,065) | \$ (36,510) | \$(2,374,065) | \$ (36,510) |
| Basic and diluted loss per share (Note 8(c)) | \$ (0.04) | \$ (0.01) | \$ (0.09) | \$ (0.02) |

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------------------------------------------------|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| Net Inflow (outflow) of cash related to the following activities: | | | | |
| Operating | | | | |
| Net loss for the year | \$ (372,413) | \$ (95,346) | \$ (886,627) | \$ (210,187) |
| Items not affecting cash | | | | |
| Stock-based compensation | 227,848 | 34,839 | 482,638 | 69,677 |
| Write off of mineral properties | - | - | 30,833 | - |
| Depreciation | 7,504 | 11,256 | 30,016 | 33,768 |
| | (137,061) | (49,251) | (343,140) | (106,742) |
| Net change in non-cash working capital items | | | | |
| Advances and prepaid expenses | 104,254 | (25,392) | (213,571) | (25,392) |
| Accounts payable and accrued liabilities | (21,549) | 32,233 | (65,797) | 22,674 |
| | (54,356) | (42,410) | (622,508) | (109,460) |
| Investing | | | | |
| Investment and advances, net | - | - | 68,700 | - |
| Mineral properties | (593,656) | - | (1,376,070) | (9,750) |
| Capital assets | (42,015) | - | (200,546) | - |
| | (635,671) | - | (1,507,916) | (9,750) |
| Financing | | | | |
| Advances | (161,000) | - | 277,356 | - |
| Issue of common shares | - | 50,000 | 2,240,213 | 455,541 |
| Due to related parties | 56,727 | (17,818) | (138,330) | (410,350) |
| | (104,273) | 32,182 | 2,379,239 | 45,191 |
| Effect of exchange rate changes on cash and cash equivalents | 3,471 | - | (1,647) | - |
| Increase (decrease) in cash during the period | (790,829) | (10,228) | 247,168 | (74,019) |
| Cash - Beginning of the period | 1,153,529 | 13,597 | 115,532 | 77,388 |
| Cash - End of the period | \$ 362,700 | \$ 3,369 | \$ 362,700 | \$ 3,369 |

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(formerly BRC Development Corporation)

Notes to the Consolidated Financial Statements

(unaudited)

September 30, 2005

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

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

These consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles, which require 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.

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.

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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. 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 referred to in Note 8(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 this plan 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 (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.

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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 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 nine month period ended September 30, 2005, the Corporation incurred management fees of \$99,411 (September 30, 2004 - \$36,000) to two officers and directors of the Corporation, for services rendered during the period. At September 30, 2005, \$96,585 (December 31, 2004 - \$25,247) was payable to a director and officer of the Corporation in respect to services rendered.

During the nine month period ended September 30, 2005, a company controlled by a director and officer of the Corporation advanced total cash amount of \$249,455 to the Corporation for working capital purposes. At September 30, 2005, the balance of \$nil (December 31, 2004 - \$211,361) was due to this company.

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b) Other transactions

During the nine month period ended September 30, 2005, legal fees of \$112,281 (September 30, 2004 - \$49,950) 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 September 30, 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 September 30, 2005 is \$91,993 (December 31, 2004 - \$91,993).

6. MINERAL PROPERTIES

As at September 30, 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 nine month period ended September 30, 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 September 30, 2005, the Corporation held 13 mining claims in Fenton Township in northern Ontario, Canada. During the nine month period ended September 30, 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 cost related to these Menary Township claims of \$30,833 capitalized under Mineral Properties in the balance sheets was written-off during 2005 and their acquisition cost of \$4,109 was written-off at December 31, 2004.

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7. CAPITAL ASSETS

| | As at September 30, 2005 | | |
|-------------------------|---------------------------------|----------------------------------------------------|-------------------|
| | Cost | Accumulated Depreciation and Amortization | Net Book Value |
| Communication equipment | \$ 12,001 | \$ 3,960 | \$ 8,041 |
| Office equipment | 10,050 | 2,757 | 7,293 |
| Vehicles | 198,453 | 12,403 | 186,050 |
| Leasehold improvements | 225,121 | 225,121 | - |
| | \$ 445,625 | \$ 244,241 | \$ 201,384 |

| | 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 |
| | \$ 245,080 | \$ 196,751 | \$ 48,329 |

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 |
| Shares issued for cash | 1,000,000 | 2,235,213 |
| Balance, September 30, 2005 | 10,464,032 | \$ 4,029,694 |

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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. 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.

As at September 30, 2005, the Corporation had outstanding 910,000 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 September 30, 2005:

| Date of Grant | Number outstanding at 12/31/2004 | Option granted during the period | Options Exercised, Expired or Forfeited | Number outstanding at 09/30/05 | Options Exercisable at 09/30/05 | 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 | 168,750 | \$ 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 | 12,500 | \$ 2.10 | 03/04/10 |
| 03/18/05 | - | 225,000 | - | 225,000 | 112,500 | \$ 2.50 | 03/18/10 |
| 04/29/05 | - | 225,000 | - | 225,000 | 56,250 | \$ 2.50 | 04/29/10 |
| | 435,000 | 475,000 | - | 910,000 | 522,500 | | |

During the nine month period ended September 30, 2005, the Company recognized in the statement of operations as an expense \$329,003 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 \$153,635 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.

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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 factors:

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

c) Loss per share

The loss per share figures for the nine month periods ended September 30, 2005 and September 30, 2004 are calculated using the weighted average number of shares outstanding during the respective accounting periods amounting to 10,025,754 and 9,091,834 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.

Form 51-102F1

**BRC DIAMOND CORPORATION
INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS - THIRD QUARTER 2005**

The following management's discussion and analysis ("**MD&A**"), which is dated as of November 29, 2005, provides a review of the activities, results of operations and financial condition of BRC Diamond Corporation (the "**Company**") as at and for the three and nine month periods ended September 30, 2005, 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 and nine month periods ended September 30, 2005, together with the MD&A and audited consolidated financial statements of the Company as at and for the year ended December 31, 2004. This MD&A is incremental to the disclosure included in the MD&A in respect of the audited consolidated financial statements of the Company as at and for the year ended December 31, 2004. Additional information relating to the Company is available on SEDAR at www.sedar.com.

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. 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 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 mineral exploration business. 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, reviewed 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 third quarter of 2005 and up to the date of this MD&A, the Company continued its exploration activities on its prospective Lubao diamond project in the DRC, as well as on its properties located north of and contiguous to the Angolan border and within the prospective Kwango alluvial diamond fields in the Province of Bandundu in the southwest region of the DRC.

At Lubao, exploration activities consisted primarily of stream sediment sampling designed to target concentration of Kimberlite indicator minerals ("**KIMs**"). Bulk sediment samples collected at Lubao will be concentrated with an Armstrong jig and sent to a laboratory for KIMs identification by the end of 2005. The airborne geophysical survey over the Company's Lubao properties previously scheduled to start in October 2005 has been delayed until the second quarter of 2006 due to weather conditions.

At Kwango, the Company has established an exploration camp on the Kwango River near the village of Kitangu and gridding, soil and trench sampling together with geological mapping have commenced. The Company has selected a number of targets to conduct ground geophysics surveys targeting extensions of current artisanal workings in order to determine the extent of gravel horizons.

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

Results of Operations

For the nine month period ended September 30, 2005, the Company reported a net loss of \$886,627, or \$0.09 per share, compared to a net loss of \$210,187, or \$0.02 per share, reported for the nine month period ended September 30, 2004. For the three month period ended September 30, 2005, the Company's net loss was \$372,413, or \$0.04 per share, compared to a net loss of \$95,346, or \$0.01 per share, recorded during the three month period ended September 30, 2004. The increase in the Company's net loss during the first nine months of 2005 was primarily due to a general increase in operating expenses following the commencement by the Company of exploration activities in the DRC, as well as the recognition by the Company of stock-based compensation expense of \$482,638, representing the fair value of stock options granted to employees, directors and officers of the Company (\$329,003) and to consultants (\$153,635).

During the nine month period ended September 30, 2005, the Company incurred general and administrative expenses of \$81,939 compared to \$16,241 incurred during the nine month period ended September 30, 2004. General and administrative expenses for the nine month period ended September 30, 2005 consisted of the following components: shareholder information expenses (\$10,835), travel expenses (\$59,045), government and filing fees (\$7,164); office supplies and expenses (\$3,656) and bank charges (\$1,239).

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 third quarter of 2005. 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.

| | 2005 | 2005 | 2005 | 2004 |
|--------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 3rd quarter | 2nd quarter | 1st quarter | 4th quarter |
| Net loss | \$ 372,413 | \$ 325,173 | \$ 189,041 | \$ 1,355,183 |
| Net loss per share | \$ 0.04 | \$ 0.03 | \$ 0.02 | \$ 0.15 |
| | | | | |
| | 2004 | 2004 | 2004 | 2003 |
| | 3rd quarter | 2nd quarter | 1st quarter | 4th quarter |
| Net loss | \$ 95,346 | \$ 80,929 | \$ 33,912 | \$ 242,399 |
| Net loss per share | \$ 0.01 | \$ 0.01 | \$ 0.01 | \$ 0.03 |

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 was the most significant factor explaining the increase in the Company's net loss for the second quarter of 2005 (\$136,132), 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 third quarter of 2004 in the Company's net loss, 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*. Results for the fourth quarter of 2003 were impacted by the year end accrual of legal and audit expenses of \$37,926, as well as by the recognition of stock-based compensation expense to consultants which was only recognized at December 31, 2003. This accounting of stock-based compensation resulted in an additional expense during the fourth quarter of 2003 in the amount of \$95,024.

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 September 30, 2005, the Company had cash of \$362,700 and working capital of \$194,716, compared to cash of \$115,532 and a working capital deficiency of \$192,794 as at December 31, 2004. On April 29, 2005, the Company completed a 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. The Company will need to raise additional capital to fund the Company's proposed exploration activities.

Mineral properties, which include deferred exploration expenditures, increased by \$1,364,359 during the nine month period ended September 30, 2005 to \$1,886,995 from \$522,636 as at December 31, 2004, as a result of increased exploration activities in the DRC. The Company

incurred cash exploration expenditures of \$1,376,070 during the nine month period ended September 30, 2005 compared to \$9,750 for the nine month period ended September 30, 2004. The Company's cash exploration expenditures during the three month period ended September 30, 2005 amounted to \$593,656. In addition, during the nine month period ended September 30, 2005, the Company acquired capital assets amounting to \$200,546 necessary to support exploration activities in the DRC.

Change in Accounting Policies

Effective January 31, 2004, the Company adopted the fair value method of accounting for stock options granted to directors, officers and employees under its stock option plan. The new policy requires that the Company recognize compensation expense over the vesting period for options granted to directors, officers and employees.

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 12/31/2003 | \$ 414,043 | \$ 30,833 | \$ - | \$ 444,876 |
| Administrative and office support | 280 | - | 63,851 | 64,131 |
| Balance 12/31/2004 | <u>\$ 414,323</u> | <u>\$ 30,833</u> | <u>\$ 63,851</u> | <u>\$ 509,007</u> |
| Field camps and administrative support | - | - | 381,377 | 381,377 |
| Surface taxes | - | - | 374,713 | 374,713 |
| Consulting geologists | - | - | 377,197 | 377,197 |
| Travel and helicopter expenses | - | - | 238,921 | 238,921 |
| Depreciation | - | - | 17,438 | 17,439 |
| Write-off of deferred expenditures | - | (30,833) | - | (30,833) |
| Balance 09/30/2005 | <u>\$ 414,323</u> | <u>\$ -</u> | <u>\$ 1,453,497</u> | <u>\$ 1,867,821</u> |

No exploration expenditures were capitalized during the nine months ended September 30, 2005 for the Fenton Township or Menary Township properties.

Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of common shares. As at November 29, 2005, the Company had outstanding 10,464,032 common shares and stock options to purchase an aggregate of 910,000 common shares.

Related Party Transactions

During the nine month period ended September 30, 2005, the Company incurred management fees of \$99,411 (September 30, 2004 - \$36,000) to two officers and directors of the Company for services rendered during the period. At September 30, 2005, \$96,585 (December 31, 2004 - \$25,247) was payable to a director and officer of the Company in respect of services rendered.

During the nine month period ended September 30, 2005, a corporation controlled by a director and officer of the Company advanced total cash amount of \$249,455 to the Company for working capital purposes. At September 30, 2005, the balance of \$nil (December 31, 2004 - \$211,361) was due to this corporation.

During the nine month period ended September 30, 2005, legal fees of \$112,281 (September 30, 2004 - \$49,950) were billed to the Company by a law firm of which two partners are also insiders of the Company.

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.