

## Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Monroe Minerals Inc. as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

"KPMG LLP"  
Chartered Accountants  
Calgary, Canada  
March 23, 2007

# Consolidated Balance Sheets

December 31	2006	2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 407,389	\$ 954,859
Accounts receivable	17,234	34,117
Inventory	6,885	80,724
Prepaid expenses and other	47,054	34,907
	478,562	1,104,607
Deposit [Note 2 (c)]	466,560	466,400
Mineral interests [Note 2]	306,135	2,332,410
	\$ 1,251,257	\$ 3,903,417
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 84,463	\$ 340,075
Current portion of long term debt [Note 3]	340,669	299,134
	425,132	639,209
Long term debt [Note 3]	340,669	299,134
Amount due to related party [Note 3]	380,000	380,000
	1,145,801	1,318,343
<b>Shareholders' equity:</b>		
Share capital [Note 4]	7,089,078	6,452,404
Warrants [Note 4]	762,000	525,000
Contributed Surplus [Note 4]	269,008	178,504
Deficit	(8,014,630)	(4,570,834)
	105,456	2,585,074
	\$ 1,251,257	\$ 3,903,417

Basis of presentation [Note 1(a)]

Commitment [Note 2(c)]

Subsequent event [Note 8]

See accompanying notes

On behalf of the Board

(Signed)

"Derek J. Moran"  
Director

(Signed)

"Peter T. Farkas"  
Director

## Consolidated Statements of Loss and Deficit

Year ended December 31	2006	2005
Expenses:		
Project development	\$ 20,030	\$ 22,756
Amortization	7,740	6,630
General and administrative	1,018,980	614,276
Interest income	(9,276)	(3,298)
Interest on long term debt	44,017	47,253
Foreign exchange loss (gain)	184,901	(77,071)
Write down of mineral interests [Note 2]	2,177,404	-
Loss on disposal of mineral interests	-	19,795
Gain on disposal of mining and processing equipment	-	(5,347)
Loss before non-controlling interest	3,443,796	624,994
Non-controlling interest	-	(32,668)
<b>Loss for the year</b>	<b>3,443,796</b>	<b>592,326</b>
Deficit, beginning of year	4,570,834	3,978,508
<b>Deficit, end of year</b>	<b>\$ 8,014,630</b>	<b>\$ 4,570,834</b>
<b>Loss per share – basic and diluted [Note 4 (c)]</b>	<b>\$ 0.05</b>	<b>\$ 0.01</b>

See accompanying notes

## Consolidated Statements of Cash Flow

Year ended December 31	2006	2005
<b>Cash flows from (used by) operating activities:</b>		
Loss for the year	\$ (3,443,796)	\$ (592,326)
Add (deduct) non-cash items		
Amortization	7,740	6,630
Unrealized foreign exchange loss (gain)	82,910	(77,071)
Write down of mineral interests	2,177,404	-
Loss on disposal of mineral interests	-	19,795
Gain on disposal of mining and processing equipment	-	(5,347)
Stock based compensation	64,472	44,500
Non-controlling interest	-	(32,668)
Change in non-cash working capital	(115,801)	97,437
	(1,227,071)	(539,050)
<b>Cash flows from (used by) financing activities:</b>		
Shares issued for cash	785,800	1,357,695
Warrants issued for cash	252,000	495,000
Warrants exercised for cash	12,500	-
Share issue costs	(163,926)	(240,586)
Change in non-cash working capital	(57,302)	24,135
	829,072	1,636,244
<b>Cash flows from (used by) investing activities:</b>		
Mineral interests expenditures	(145,537)	(217,042)
Deposit	-	(466,400)
Proceeds on disposal of mineral interests	-	7,166
Change in non-cash working capital	(3,934)	11,291
	(149,471)	(664,985)
<b>Net increase (decrease) in cash</b>	<b>(547,470)</b>	<b>432,209</b>
<b>Cash at beginning of year</b>	<b>954,859</b>	<b>522,650</b>
<b>Cash at end of year</b>	<b>\$ 407,389</b>	<b>\$ 954,859</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 44,017	\$ 47,253

See accompanying notes

# Notes to Consolidated Financial Statements

December 31, 2006

Monroe Minerals Inc. (the 'Company') is incorporated under the laws of Alberta. The Company's principal business is the acquisition, exploration and development of diamond resource properties in Southern Africa.

## 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from those estimates.

Effective July 21, 2005 the Company, through its wholly-owned subsidiary Monroe Resources Limited, acquired all of the issued and outstanding shares of Crystal Mining Corporation Ltd. ('Crystal'), a private company incorporated in the British Virgin Islands. At the same time, the Company acquired 58% of the issued and outstanding shares of Blue Diamond International Holding Inc. ('Blue'), a private company also incorporated in the British Virgin Islands. Both acquisitions were accounted for using the purchase method. These companies were acquired for nominal consideration, and collectively hold the Company's interest in the Cangandata Diamond Concession [Note 2 (c)].

### (a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its foreign subsidiaries. Non-controlling interest includes the interest of the non-controlling shareholders in the shares of subsidiaries.

While the majority of the Company's projects are in the development stage, portions of projects may enter the pre-production or production phase. Operating results would then be reflected in the Consolidated Statement of Loss and Deficit. With respect to interests which are at the development stage, all costs, net of miscellaneous revenues, directly related to the acquisition, exploration and evaluation of mineral properties are deferred and allocated to mineral interests.

The Company's ability to continue operations is dependent upon the Company's success in developing commercial mineral interests and obtaining funds to continue their development and attaining profitability. These financial statements have been prepared on the basis that the Company will continue to raise sufficient financing and to realize its assets and discharge its obligations in the ordinary course of business and do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid.

### (b) Foreign currency:

The Company's foreign subsidiaries are designated as integrated. Accordingly, the subsidiaries' financial statements are translated to Canadian dollars with monetary items translated at rates of exchange in effect at the balance sheet dates and non-monetary items at rates of exchange when the assets were acquired or obligations incurred. Expenses are translated at rates in effect at the time of the transactions. Translation gains or losses are included in income or expense of the period in which they occur. The Company's foreign operations are conducted primarily in Angola and South Africa. Unless otherwise specified, the currency used in these financial statements is Canadian dollars. On December 31, 2006, one Canadian dollar was worth \$1.17 U.S. dollars, the currency used for Angolan operations, and R6.05 in the currency of the Republic of South Africa (Rand).

(c) Revenue recognition:

Revenue is recognized at the time of sale and delivery of diamonds from production operations to third parties. Contract revenue from third parties is reported as earned.

(d) Inventory:

Inventory of rough diamonds is valued at the lower of average production costs and estimated market prices at the balance sheet date. Inventory of polished diamonds is valued at the lower of cost and the net realizable value.

(e) Mineral interests:

Costs relating to the acquisition, exploration and development of mineral properties are deferred until either commercial production is established or the property is abandoned. At that time, the costs are either depleted on a unit of production basis recognizing indicated mineral resources or fully charged to earnings.

The carrying values of producing mineral properties are reviewed regularly and, where necessary, are written down to their estimated net realizable value. The review includes the calculation of future cash flows using estimated recoverable resources, estimated product prices and estimated operating costs as well as estimated capital, reclamation and other costs.

Proceeds from the sale of properties and earn-in arrangements in which the Company retains an economic interest are credited against property costs and no gain is recorded until all costs have been fully recovered. Periodically, a determination will be made by management as to the status of each property. Where a property shows no promise from prior exploration results and is dormant, the claims may be allowed to lapse. At management's discretion, the claims would be written down to a nominal value where an interest in the claims remained. Management will also periodically determine if an exploration property is impaired, and whether the carrying value of such property should be written down and whether exploration costs incurred should be charged against earnings rather than being deferred.

Amounts recorded for mineral properties represent costs incurred to date and are not intended to reflect present or future values. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves and future production or proceeds from the disposition thereof.

Mining and processing and office equipment are amortized on a declining balance basis over five to ten years.

(f) Asset retirement obligations:

Future costs to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are recognized and recorded as a liability at fair value in the period it is incurred or acquired. The amount of the liability will be subject to re-measurement at each reporting period and it is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and amortized over the asset's useful life.

The Company's estimates of future asset retirement obligations are based on reclamation standards that meet current regulatory requirements. The estimates of the total liability of future site restoration costs may be subject, however, to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Accordingly, the amount of the liability will be subject to re-measurement at each reporting period. Any adjustments to this liability will impact the related asset.

(g) Incentive stock options and stock based compensation:

Proceeds on the issuance of stock upon the exercise of employee stock options are included in share capital. Effective January 1, 2003, stock options granted to consultants and non-employees are accounted for using the fair value method whereby the fair value of the options granted is determined using an option pricing model and charged to earnings over the vesting period of the options.

(h) Per share amounts:

The calculation of per share amounts is based on the weighted average number of shares outstanding during the year.

## (i) Measurement uncertainty:

The amounts recorded for capitalized exploration expenses, depletion and amortization, write down of mineral interests, and the provision for future reclamation and closure costs are based on estimates. By their nature, these estimates are subject to measurement uncertainty and changes in these estimates may impact the financial statements of future periods.

**2. MINERAL INTERESTS:**

December 31, 2006	Cost	Accumulated depletion and amortization, and write downs	Net
London	\$ 2,150,450	\$ 2,150,450	\$ -
Allandale	51,753	51,753	-
Skaapkop	49,407	-	49,407
Middle Orange River	189,328	189,328	-
Angola	328,879	167,691	161,188
Mining, processing and office equipment	176,077	80,537	95,540
<b>Total</b>	<b>\$ 2,945,894</b>	<b>\$ 2,639,759</b>	<b>\$ 306,135</b>

December 31, 2005	Cost	Accumulated depletion and amortization	Net
London	\$ 2,184,952	\$ 381,818	\$ 1,803,134
Allandale	51,753	-	51,753
Skaapkop	23,121	-	23,121
Middle Orange River	189,328	-	189,328
Angola	239,738	-	239,738
Mining, processing and office equipment	98,133	72,797	25,336
<b>Total</b>	<b>\$ 2,787,025</b>	<b>\$ 454,615</b>	<b>\$ 2,332,410</b>

Mineral interests under development totalling \$210,595 (December 31, 2005 – \$503,940) are not subject to depletion and amortization. During the year, \$nil (2005 – \$91,266) of general and administrative expenses and \$209,141 (2005 – \$223,347) of salaries relating to exploration activities were capitalized to mineral interests.

The reclamation and closure costs relating to the London project were incurred as part of operating costs for the year. Accordingly, there are no additional provisions required and the estimated future reclamation and closure costs at December 31, 2006 are \$nil (2005 – \$nil).

Mineral interests consist of the following:

## (a) London, South Africa:

The right to exploit the 100% right to prospect and mine diamonds on 5,242 acres to January 21, 2009, subject to a 10% royalty (2005 – 10%), a R10,000 (\$1,653) (2005 – R10,000, \$1,840) monthly rental and a 1.5% after payout net profit interest. Activity on the London project during 2005 and 2006 has been a test on an inferred resource and is still in the nature of a development stage activity with the operating results reflected in the Consolidated Balance Sheet through the mineral interests' account.

In December 2006, the Company's application for a mining right was refused by the Department of Minerals and Energy ('DME') in South Africa. Subsequent to year end, the Company lodged a new application which has been accepted for exclusive consideration by the DME. In view of the uncertainty surrounding the continuation of the London project, the Company recognized a write down on the London project in the amount of \$1,768,632.

(b) Skaapkop, South Africa:

The Company presently holds no land interests or rights in connection with the Skaapkop project. The objective is the discovery and exploitation of the kimberlite sources that host the alluvial diamonds in the Southwest Transvaal area in Northwest Province in South Africa. The project is in the exploration stage.

(c) Angola:

The Company holds a 40% interest in the Cangandala Diamond Concession in Angola. Under the terms of the Concession, the Company will pay 100% of the exploration costs to determine a mineral resource and will receive preferential reimbursement of costs from revenues, if any. In connection with the Concession, the Company has made a deposit of US \$400,000 (\$466,560) with Endiama, the Angolan state diamond company.

(d) Allandale and Middle Orange River, South Africa:

The Company determined that based on the exploration results to date and the changed factors in South Africa, the Allandale and Middle Orange River projects were unlikely to meet the Company's original expectations. As a result, the Company recognized a write down in the amount of \$241,081.

**3. LONG TERM DEBT AND AMOUNT DUE TO RELATED PARTY:**

	2006	2005
Loan, denominated in sterling, bearing interest at 7% per annum, with no repayment terms and secured by a charge on the income from the London, South Africa mineral interests, due to an entity controlled by the Company's controlling shareholder.	\$ 681,338	\$ 598,268
Less current portion	(340,669)	(299,134)
	<u>\$ 340,669</u>	<u>\$ 299,134</u>

Interest on long-term debt of \$44,017 (2005 – \$47,253) has been expensed in the year ended December 31, 2006.

The amount due to related party of \$380,000 (2005 – \$380,000) is in respect of unpaid salary to the President of the Company, is unsecured, has no repayment terms and bears no interest. An additional \$nil (2005 – \$50,000) of unpaid salary is included in accounts payable and accrued liabilities. The President has agreed not to demand repayment of the balance before January 2008.

The Company is also indebted to the President of the Company in the amount of \$7,375 (2005 – \$34,539) in respect of expenses incurred on its behalf.

The above transactions were in the normal course of operations and were recorded at the exchange amounts, which were the amounts agreed to by the related parties involved.

#### 4. SHARE CAPITAL AND OTHER:

##### Authorized:

Unlimited number of common shares without nominal or par value.

Unlimited number of preferred shares in one or more series.

Common shares issued:	Number	Amount
Balance, December 31, 2004	47,827,618	\$ 5,463,598
Issued for cash pursuant to a Short Form Offering Document	9,451,500	869,695
Issued for cash in a private placement	4,800,000	488,000
Share issue costs	-	(368,889)
Balance, December 31, 2005	62,079,118	6,452,404
Issued for cash in a private placement	7,983,076	785,800
Issued on exercise of warrants	100,000	14,800
Share issue costs	-	(163,926)
Balance, December 31, 2006	70,162,194	\$ 7,089,078

##### Warrants issued:

Balance, December 31, 2004	3,900,000	\$ 15,000
Issued for cash pursuant to a Short Form Offering Document	9,451,500	359,000
Issued for cash in a private placement	4,800,000	136,000
Issued to broker	313,000	15,000
Balance, December 31, 2005	18,464,500	525,000
Issued for cash in a private placement	3,991,538	252,000
Exercised	(100,000)	(2,300)
Expired	(3,800,000)	(12,700)
Balance, December 31, 2006	18,556,038	\$ 762,000

##### Contributed surplus:

Balance, December 31, 2004	\$ 78,004
Stock options issued to consultants	44,500
Stock options issued to broker	56,000
Balance, December 31, 2005	178,504
Stock options issued to directors, employees and consultants	77,804
Warrants expired	12,700
Balance, December 31, 2006	\$ 269,008

**(a) Financing:**

In November and December 2005, the Company issued 14,251,500 units at a purchase price of \$0.13 per unit for total consideration of \$1,852,695 by way of Short Form Offering Document and private placement. Each unit consists of one common share and one common share purchase warrant ('warrant'). Each warrant is exercisable for 18 months from the date of issuance into one common share at a price of \$0.20 per common share, subject to earlier expiry in certain circumstances. Agents for the financing received cash commissions totalling \$149,455, broker warrants to acquire up to 313,000 common shares at a purchase price of \$0.13 per common share on or before May 22, 2007, and agent options to acquire up to 945,150 units ('agent units') at a purchase price of \$0.13 per agent unit on or before May 17, 2007. Each agent unit consists of one common share and one common share purchase warrant ('agent warrant'). Each agent warrant is exercisable until May 17, 2007 into one common share at a price of \$0.20 per common share, subject to earlier expiry in certain circumstances.

On April 18, 2006, the Company issued 7,983,076 units at a purchase price of \$0.13 per unit for total consideration of \$1,037,800 by way of private placement. Each unit consists of one common share and one-half of one common share purchase warrant. Each full warrant is exercisable into one common share at a price of \$0.20 per common share until October 18, 2007. The Company has the right to accelerate expiry of the warrants should the trading price of its common shares exceed \$0.20 per share over a period of 20 consecutive trading days. A finder's fee in the amount of \$51,738 was paid to an arm's length finder in connection with the offering.

**(b) Incentive stock options and stock based compensation:**

Under its Incentive Stock Option Plan, the Company may grant options to employees and other participants for up to 12 million shares. The exercise price of each option must not be less than the market price on the date of grant, reduced by any discount allowed by the rules, by-laws, or policies of the TSX Venture Exchange. Options granted may be exercised as to 25% immediately after the day of grant and 25% following each year thereafter.

**(c) Diluted loss per share:**

Options and warrants outstanding during the year were not included in the computation of diluted loss per share because the exercise prices were greater than the average market price of the common shares during the year.

**(d) Pro forma information:**

Pro forma information relates to the issuance of 2,275,000 employee/director options granted during the period January 1, 2002 to December 31, 2002. Pro forma annual option expense of \$5,136 (2005 - \$27,488) results in a pro forma loss and loss per share of \$3,448,932 and \$0.051 per share respectively (2005 - \$619,814 and \$0.013 per share) for the year ended December 31, 2006. The options expired unexercised in June 2006.

**(e) Option pricing:**

The cost of options and warrants issued during 2005 and 2006 was calculated using the Black-Scholes option pricing model assuming a risk-free interest rate of 2.8% to 3.2%, an expected life of 1.5 for warrants and 5 years for options and an expected volatility in the range of 70% to 143%.

## (f) Stock options and warrants:

	Number outstanding	Weighted average exercise price	Number exercisable	Weighted average exercise price	Grant date	Expiry date
<b>Incentive stock plan options</b>						
Employees/directors	6,975,000	\$ 0.16	3,262,500	\$ 0.17	Apr. 2002 – Sept. 2006	Apr. 2007 – Aug. 2010
Consultants	680,000	0.24	605,000	0.25	Apr. 2002 – Sept. 2006	Apr. 2007 – Aug. 2010
<b>Total</b>	<b>7,655,000</b>	<b>\$ 0.16</b>	<b>3,867,500</b>	<b>\$ 0.18</b>		
<b>Other options</b>						
Vuya! options	500,000	\$ 0.30	500,000	\$ 0.30	Dec. 2003	Dec. 2007
<b>Total</b>	<b>500,000</b>	<b>\$ 0.30</b>	<b>500,000</b>	<b>\$ 0.30</b>		
<b>Options and warrants</b>						
Short Form Offering Document	9,451,500	\$ 0.20	9,451,500	\$ 0.20	Nov. 2005	May 2007
Private placement	8,791,538	0.20	8,791,538	0.20	Nov. 2005 – Apr. 2006	May 2007 – Oct. 2007
Agent options	945,150	0.13	945,150	0.13	Nov. 2005	May 2007
Broker warrants	313,000	0.13	313,000	0.13	Nov. 2005	May 2007
<b>Total</b>	<b>19,501,188</b>	<b>\$ 0.20</b>	<b>19,501,188</b>	<b>\$ 0.20</b>		

Incentive stock plan options	2006		2005	
	Shares	Weighted avg. exercise price	Shares	Weighted avg. exercise price
Outstanding at beginning of year	5,355,000	\$ 0.21	5,355,000	\$ 0.21
Granted	4,250,000	0.15	–	–
Expired	(1,950,000)	0.25	–	–
Outstanding at end of year	7,655,000	0.16	5,355,000	0.21
Exercisable at end of year	3,867,500	\$ 0.18	4,155,000	\$ 0.22
<b>Other options</b>				
Outstanding at beginning of year	500,000	\$ 0.30	500,000	\$ 0.30
Outstanding and exercisable at end of year	500,000	\$ 0.30	500,000	\$ 0.30
<b>Options and warrants</b>				
Outstanding at beginning of year	19,409,650	\$ 0.19	3,900,000	\$ 0.19
Warrants issued pursuant to Short Form Offering Document	–	–	9,451,500	0.20
Warrants issued pursuant to a private placement	3,991,538	0.20	4,800,000	0.20
Options granted to agent on Short Form Offering Document (*)	–	–	945,150	0.13
Warrants granted to brokers on private placement	–	–	313,000	0.13
Warrants exercised	(100,000)	0.13	–	–
Warrants expired	(3,800,000)	0.19	–	–
Outstanding and exercisable at end of year	19,501,188	\$ 0.20	19,409,650	\$ 0.19

\* Options granted are to acquire one common share and one common share purchase warrant [Note 4(a)].

The Company will record the following amounts in respect of options and warrants over the periods indicated.

Incentive stock plan options	Grant date	Number	Share issue costs	Annual Expense	Period	
					From	To
	2004	2,225,000	-	\$ 31,600	2004	2007
	2006	4,250,000	-	\$ 110,500	2006	2009
<b>Options and warrants</b>						
Agent options	2005	945,150	\$ 56,000	-	-	-
Broker warrants	2005	313,000	\$ 15,000	-	-	-

## 5. FINANCIAL INSTRUMENTS:

### (a) Fair values:

The Company's financial instruments recognized on the balance sheet consist of cash, accounts receivable, accounts payable and accrued liabilities, long term debt and amount due to related party. The fair values of the Company's financial instruments approximate their carrying value.

### (b) Interest rate risk:

The Company is exposed to interest rate price risk to the extent that long term debt bears a fixed rate of interest.

### (c) Foreign currency risk:

The Company is exposed to currency exchange rate risks to the extent of its foreign operations conducted in Angola and South Africa, as well as the long term debt denominated in sterling. The Company does not hedge its exposure to fluctuations in the related foreign exchange rates.

## 6. INCOME TAXES:

The income tax reduction differs from the amount which would be obtained by applying the Canadian expected tax rates as follows:

	2006	2005
Income tax rate	32.1%	33.6%
Computed 'expected' income tax reduction	\$ (1,105,459)	\$ (199,022)
Decrease resulting from:		
Stock based compensation	20,696	14,952
Effect of change in tax rate	104,759	25,200
	(980,004)	(158,870)
Valuation allowance	980,004	158,870
	\$ -	\$ -

The components of the net future income tax asset at December 31, 2006, no portion of which has been recorded in these financial statements, are as follows:

	2006	2005
Non-capital/net operating losses	\$ 1,633,000	\$ 1,340,000
Share issue costs	112,000	131,000
Capital losses	25,000	29,000
Mineral interests	1,566,000	1,085,000
	3,336,000	2,585,000
Valuation allowance	(3,336,000)	(2,585,000)
	\$ -	\$ -

The Company has Canadian tax losses of approximately \$2,613,000, and South African tax losses of approximately \$3,018,000, with expiry dates ranging between 2007 and 2026.

Unclaimed resource expenditures of approximately \$5.7 million are available in foreign jurisdictions to reduce taxable income of future years. The potential income tax benefit of these losses and deductions has not been reflected in the accounts.

#### **7. MINORITY INTEREST IN MONROE MINING (PROPRIETARY) LIMITED:**

Consequent upon the requirements of the South African Government in relation to Black Economic Empowerment ('BEE') participation in South African companies, by agreements dated December 1, 2003 and August 16, 2004, Vuya! Investments (Proprietary) Limited ('Vuya!'), a BEE company, acquired 26% of the share capital of Monroe Mining (Proprietary) Limited ('MMPL'), the Company's South African subsidiary. The agreements cover a period to August 2008, during which Vuya! is required to pay R19,253,000 (\$3,180,315), in cash or through the identification of diamond projects valued at no less than R19,253,000 (\$3,180,315), and assist generally in developing the Company's South African business.

Vuya!'s 26% share of the recorded net asset value of MMPL at the agreement dates was recorded as a non-controlling interest. Vuya!'s proportionate share of MMPL's net loss since August 2004 is recorded as an decrease to the non-controlling interest.

The Company has the right to recover all or part of the 26% interest of Vuya! in MMPL for nominal consideration in the event that Vuya! does not pay the full consideration of R19,253,000 (\$3,180,315) or Vuya! ceases to be a BEE company.

#### **8. SUBSEQUENT EVENTS:**

Subsequent to year end, the Company announced a \$1,500,000 non-brokered unit offering of up to 15,000,000 units by way of a private placement at a purchase price of \$0.10 per unit. Each unit will consist of one common share and one-half of one common share purchase warrant. One whole warrant will be exercisable into one common share of the Company at a price of \$0.15 per common share for 18 months from the date of issuance subject to earlier expiry under certain circumstances. Finders will receive a cash finder's fee in the amount of 8% of the gross proceeds of the sale of the units and will be issued a non-transferable finder's warrant to purchase common shares equal in number to 8% of the units sold. Each finder's warrant will entitle the holder to purchase one common share at a price of \$0.10 per common share for 12 months from the closing of the offering. This offering is subject to closing, pending acceptable subscription amounts.

#### **9. COMPARATIVE FIGURES:**

Certain of the prior year figures have been reclassified to conform with the current year's presentation.