

**Court File No. 08-CL-7355**

**TAHERA DIAMOND CORPORATION  
AND BENACHEE RESOURCES INC.**

**MONITOR'S SECOND REPORT TO THE COURT  
February 19, 2008**

**ONTARIO SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF

TAHERA DIAMOND CORPORATION  
BENACHEE RESOURCES INC.

**SECOND REPORT TO THE COURT SUBMITTED BY  
PRICEWATERHOUSECOOPERS INC.  
IN ITS CAPACITY AS MONITOR**

**INTRODUCTION**

1. On January 16, 2008, Tahera Diamond Corporation and its wholly owned subsidiary, Benachee Resources Inc. (collectively referred to herein as the "Applicants" or the "Company") made an application under the *Companies' Creditors Arrangement Act* (the "CCAA") and an initial order (the "Initial Order") was granted by the Honourable Mr. Justice Spence of the Ontario Superior Court of Justice (Commercial List) (the "Court") granting, *inter alia*, a stay of proceedings against the Company until February 14, 2008 (the "Stay Period") and appointing PricewaterhouseCoopers Inc. as monitor (the "Monitor"). The proceedings commenced by the Company under the CCAA will be referred to herein as the "CCAA Proceedings".
2. Pursuant to the Order of the Honourable Madam Justice Pepall made February 11, 2008, the Stay Period was extended and currently expires on June 30, 2008.
3. The purpose of this, the Monitor's second report (the "Second Report"), is to provide the Court with the following:

- (i) The Company's revised cash flow forecast for the period February 10 to December 31, 2008;
  - (ii) Certain background in respect of the cross-motion brought by Dyno Nobel Nunavut Inc. ("DNNI"), returnable February 20, 2008, (the "DNNI Cross-Motion").
  - (iii) A preliminary estimate of the potential benefits to various stakeholders of the continuation of processing operations at the Jericho Mine.
4. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms used herein not otherwise defined are as defined in the Initial Order.

#### **REVISED CASH FLOW FORECAST**

5. The Company has prepared a revised cash flow forecast for the period February 10 to December 31, 2008 (the "February 15 Forecast"). A copy of the February 15 Forecast is attached hereto as Appendix A.
6. The major changes in assumptions underlying the February 15 Forecast as compared to the February 1 Forecast, as defined in the Monitor's First Report, are as follows:
- (i) The shipment of fuel to the Jericho Mine in February using the winter road, rather than bringing fuel in by air during the summer, resulting in an estimated cost saving of approximately \$850,000; and
  - (ii) The payment of outstanding vacation pay in February rather than March.

#### **THE DNNI CROSS-MOTION**

7. The DNNI Cross-Motion seeks, *inter alia*:

- (a) Payment for goods and services provided to the Company subsequent to the commencement of the CCAA Proceedings;
  - (b) The ability to remove vehicles, equipments and inventory from the Jericho Mine;
  - (c) An Order directing the Company to acknowledge as owing the amounts claimed by DNNI in certain claims filed against the Company pursuant to the Nunavut *Miners Lien Act*, R.S.N.W.T. 1988, c. M-12 (the “Miners Lien Act”), or, in the alternative, an Order directing the Applicants and the Monitor to receive, collect, invest and account for all those proceeds of sale, including the sale of diamonds so as to satisfy the terms and requirements of the Miners Lien Act.
8. It is the Monitor’s understanding that services are provided by DNNI to the Company pursuant to the Explosives Supply Agreement, dated January 14, 2005 (“Explosives Agreement”) between DNNI and the Company. Pursuant to the Explosives Agreement, DNNI supplies labour, equipment and explosives inventory to the Company.
9. In its First Report, the Monitor noted that the Company had received a copy of a Form 1 - Claim of Lien dated January 2, 2008, signed by Kent R. Anderson, Secretary of DNNI, which asserts that DNNI provided certain goods and services relating to explosives used at the Company’s Jericho Mine site on or before December 1, 2007 (the “Initial DNNI Lien Claim”). The amount of the Initial DNNI Lien Claim is \$620,839.25 and is asserted against six mining leases and fifty-eight mining claims.

10. Paragraph 6 of the affidavit of Ms. Debbie Witzaney sworn February 14, 2008, and filed in support of the DNNI Cross-Motion states that DNNI is in the process of submitting for registration a further Form 1 – Claim of Lien claiming an additional lien of \$502,775.15 (the “Additional DNNI Lien Claim”; together with the Initial DNNI Claim, the “DNNI Lien Claim”).
11. Counsel to the Monitor has undertaken a preliminary review of the Explosives Agreement and related documentation. Based on this preliminary review, it appears that there are a number of legal and factual issues that will have to be settled among the relevant parties or judicially determined in order to determine DNNI's rights relative to Tahera and the other creditors, including without limitation:
  - (i) The timing of transfer of title to inventory;
  - (ii) Whether the Explosives Agreement constitutes a financing agreement with respect to the provision of equipment, payment for which is prohibited pursuant to the Initial Order;
  - (iii) The applicability of *Personal Property Security Act* (“PPSA”) requirements;
  - (iv) Inter-creditor priority issues; and
  - (v) Miners lien claim issues, including the validity and extent of the DNNI Lien Claim and certain jurisdictional questions.
12. The Company has informed DNNI that it will pay the labour component of invoices relating to services provided during the CCAA Proceedings, but payment of amounts relating to equipment or the usage of explosives will be withheld pending determination of the legal issues.

### PRELIMINARY ANALYSIS OF THE CONTINUATION OF PROCESSING

13. Based on the February 15 Forecast and its underlying assumptions (which assumptions have been revised based on discussions between the Company and various stakeholders since the date of the First Report, as described above) prepared by the Company, the Monitor, in consultation with the Company, has undertaken a preliminary analysis of the potential benefits of the continuation of processing operations at the Jericho Mine. For the purposes of this analysis, the estimated cash flow forecast assuming processing is suspended on February 24, 2008, was compared to the estimated cash flow forecast assuming the continuation of processing for approximately an additional five weeks until the week ended March 30, 2008. The results of this analysis are summarized as follows:

	<b>\$000</b>
Incremental processing revenue	5,291
Incremental processing costs	(1,383)
<b>Incremental net benefit</b>	<b>3,908</b>

Approximate net increment per week      \$782,000

14. As noted in the Monitor's First Report and earlier in this Report, there are a number of lien claims that have been registered pursuant to the Miners Lien Act and it is possible that additional lien claims may be registered in due course. To date, there has been no adjudication of such lien claims. Furthermore, counsel to the Monitor has, as yet, not completed its independent review of the validity and enforceability of the security held by Laurelton Diamonds Inc. ("Laurelton"), as described in the Monitor's First Report.
15. Accordingly, there is a significant amount of uncertainty as regards which creditors may be able to assert claims to the incremental amounts realized from continued processing and the Monitor has not, therefore, attempted to allocate the estimated benefit of the continuation of processing amongst the various stakeholders.

The Monitor respectfully submits to the Court this, its Second Report.

Dated this 19<sup>th</sup> day of February 2008.

PricewaterhouseCoopers Inc.  
in its capacity as Monitor of  
Tahera Diamond Corporation  
and Benachee Resources Inc.

A handwritten signature in black ink, appearing to read 'Nigel D. Meakin', written in a cursive style.

Nigel D. Meakin  
Senior Vice President

**Appendix A**

**February 15 Forecast**

Tahera Diamond Corporation

Week Ended	16-Feb-08	23-Feb-08	1-Mar-08	8-Mar-08	15-Mar-08	22-Mar-08	29-Mar-08	5-Apr-08	12-Apr-08	19-Apr-08	26-Apr-08
<b>Receipts</b>											
Diamond Sales	-	4,008,013	-	-	-	82,677	5,976,303	165,405	-	-	127,919
Other	-	800,000	-	-	-	-	-	-	-	-	-
<b>Total Receipts</b>	<b>-</b>	<b>4,808,013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>82,677</b>	<b>5,976,303</b>	<b>165,405</b>	<b>-</b>	<b>-</b>	<b>127,919</b>
<b>Disbursements</b>											
Direct Mining	228,492	142,455	139,337	95,229	58,952	55,982	34,098	17,220	17,220	17,220	17,220
Direct Processing	22,771	17,876	53,262	9,476	17,876	17,876	9,476	-	-	-	-
Overhead	645,110	85,841	866,188	25,828	583,597	25,828	106,898	583,261	24,335	127,662	24,335
Total Jericho Operations	896,373	246,173	1,058,787	130,533	660,425	99,686	150,473	600,481	41,555	144,882	41,555
Corporate Costs and Other	1,082,927	81,093	2,423,593	1,399	77,795	72,194	2,396	248,393	(2,262)	137,628	(4,800)
Capex	-	-	-	-	-	-	-	-	-	-	-
Legal and Professional Fees	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	35,000
KERP	48,375	-	-	-	-	-	-	260,500	-	-	-
<b>Total Disbursements</b>	<b>2,097,675</b>	<b>397,266</b>	<b>3,552,380</b>	<b>201,932</b>	<b>808,220</b>	<b>241,880</b>	<b>222,869</b>	<b>1,179,374</b>	<b>109,293</b>	<b>352,510</b>	<b>71,755</b>
Net Cash Flow	(2,097,675)	4,410,747	(3,552,380)	(201,932)	(808,220)	(159,203)	5,753,434	(1,013,969)	(109,293)	(352,510)	56,164
Opening Cash	3,813,987	1,716,312	6,127,059	2,574,679	2,372,747	1,564,527	1,405,324	7,158,758	6,144,789	6,035,496	5,682,986
<b>Ending Cash</b>	<b>1,716,312</b>	<b>6,127,059</b>	<b>2,574,679</b>	<b>2,372,747</b>	<b>1,564,527</b>	<b>1,405,324</b>	<b>7,158,758</b>	<b>6,144,789</b>	<b>6,035,496</b>	<b>5,682,986</b>	<b>5,739,150</b>
Less: Restricted Cash	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
<b>Available Ending Cash</b>	<b>716,312</b>	<b>5,127,059</b>	<b>1,574,679</b>	<b>1,372,747</b>	<b>564,527</b>	<b>405,324</b>	<b>6,158,758</b>	<b>5,144,789</b>	<b>5,035,496</b>	<b>4,682,986</b>	<b>4,739,150</b>

**Tahera Diamond Corporation**

Week Ended	3-May-08	10-May-08	17-May-08	24-May-08	31-May-08	7-Jun-08	14-Jun-08	21-Jun-08	28-Jun-08	Q3	Q4	Total
<b>Receipts</b>									-			
Diamond Sales	2,763,360	229,860	-	-	59,148	-	9,438	-	-	21,354	-	13,443,478
Other	-	-	-	-	-	-	-	-	-	-	-	800,000
<b>Total Receipts</b>	<b>2,763,360</b>	<b>229,860</b>	<b>-</b>	<b>-</b>	<b>59,148</b>	<b>-</b>	<b>9,438</b>	<b>-</b>	<b>-</b>	<b>21,354</b>	<b>-</b>	<b>14,243,478</b>
<b>Disbursements</b>												
Direct Mining	17,220	17,220	17,220	17,220	17,220	17,220	17,220	17,220	17,220	223,860	241,080	1,443,347
Direct Processing	-	-	-	-	-	-	-	-	-	-	-	148,613
Overhead	187,865	24,335	128,214	24,335	140,176	542,932	24,335	128,107	24,335	1,406,191	1,247,191	6,976,897
Total Jericho Operations	205,085	41,555	145,434	41,555	157,396	560,152	41,555	145,327	41,555	1,630,051	1,488,271	8,568,857
Corporate Costs and Other	591,364	(2,595)	65,876	68,325	72,638	108,371	(4,800)	136,688	(4,012)	(203,705)	729,646	5,678,152
Capex	-	-	-	-	-	-	-	-	-	-	-	-
Legal and Professional Fees	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	455,000	-	1,505,000
KERP	-	-	33,750	-	-	-	-	-	-	-	210,000	552,625
<b>Total Disbursements</b>	<b>831,449</b>	<b>73,960</b>	<b>280,060</b>	<b>144,880</b>	<b>265,034</b>	<b>703,523</b>	<b>71,755</b>	<b>317,015</b>	<b>72,543</b>	<b>1,881,346</b>	<b>2,427,917</b>	<b>16,304,634</b>
Net Cash Flow	1,931,911	155,900	(280,060)	(144,880)	(205,886)	(703,523)	(62,317)	(317,015)	(72,543)	(1,859,992)	(2,427,917)	(2,061,156)
Opening Cash	5,739,150	7,671,061	7,826,961	7,546,901	7,402,021	7,196,135	6,492,612	6,430,295	6,113,280	6,040,737	4,180,745	3,813,987
<b>Ending Cash</b>	<b>7,671,061</b>	<b>7,826,961</b>	<b>7,546,901</b>	<b>7,402,021</b>	<b>7,196,135</b>	<b>6,492,612</b>	<b>6,430,295</b>	<b>6,113,280</b>	<b>6,040,737</b>	<b>4,180,745</b>	<b>1,752,828</b>	<b>1,752,831</b>
Less: Restricted Cash	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
<b>Available Ending Cash</b>	<b>6,671,061</b>	<b>6,826,961</b>	<b>6,546,901</b>	<b>6,402,021</b>	<b>6,196,135</b>	<b>5,492,612</b>	<b>5,430,295</b>	<b>5,113,280</b>	<b>5,040,737</b>	<b>3,180,745</b>	<b>752,828</b>	<b>752,831</b>