

Court File No. 08-CL-7355

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

**MONITOR'S THIRD REPORT TO THE COURT
March 12, 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.

**THIRD 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 Processing Incentive Plan and the Executive Management Incentive Plan, each as defined in the Monitor's Second Report, were approved pursuant to Orders of the Honourable Madam Justice Pepall made February 11, 2008, and February 22, 2008, respectively. The Marketing Process, as defined in the Monitor's Second Report, was also approved in the Order granted February 22, 2008.
4. The purpose of this, the Monitor's third report (the "Third Report"), is to inform the Court of the following:
 - (i) The Company's receipts and disbursements for the period February 10 to 23, 2008;
 - (ii) The results of processing operations for the period February 6 to March 2, 2008, and the Company's revised expectations in respect of continued processing;
 - (iii) The Company's revised cash flow forecast for the period February 24 to December 31, 2008;and/or to provide the Monitor's comments and recommendations in respect of the Company's motion seeking approval of, *inter alia*:
 - (iv) Additional employee incentive arrangements associated with:
 - (a) the extension of the timeframe for the continuation of processing; and
 - (b) the transition of the Jericho Mine to care and maintenance and ongoing care and maintenance thereafter; and
 - (v) The engagement of Blair Franklin Capital Partners Inc. ("Blair Franklin") as lead financial advisor to the Company in the Marketing Process.

5. 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.

RECEIPTS & DISBURSEMENTS FOR THE PERIOD TO FEBRUARY 23, 2008

6. A schedule showing the Company's actual cash flow for the period February 10 to 23, 2008, together with an explanation of key variances against the February 15 Forecast, as defined in the Monitor's Second Report, is attached as Appendix A. The actual cash flow to February 23, 2008 was approximately \$63,000 lower than the February 15 Forecast, as summarized below:

	Actual	Forecast	Variance
	\$000	\$000	\$000
Total Receipts	3,963.0	4,808.0	(845.0)
Disbursements:			
Direct Mining	572.4	537.1	(35.3)
Direct Processing	5.0	100.6	95.6
Mine Overhead	630.5	1,029.4	398.9
Corporate Costs and Other	203.5	307.4	103.9
Capex	3.7	0.0	(3.7)
Employee Incentive Plans	48.4	48.4	0.0
Legal and Professional Fees	249.0	472.0	223.0
Total Disbursements	1,712.5	2,494.9	782.4
Surplus/(deficiency)	2,250.5	2,313.1	(62.6)
Cash on hand:			
Balance b/f	3,814.0	3,814.0	0.0
Net change for period	2,250.5	2,313.1	(62.6)
Balance c/f	6,064.5	6,127.1	(62.6)
Cash held by Monitor ¹	1,564.1	1,564.1	0.0
Total balance c/f	7,628.6	7,691.2	(62.6)

¹ in respect of supplier payment arrangements in accordance with paragraph 25(j) of the Initial Order

7. In addition to its disbursements, the Company has incurred obligations since the start of the CCAA Proceedings that were unpaid as at February 23, 2008, (the "Accrued Post-Filing Liabilities"). Management estimates the Accrued Post-Filing Liabilities as at February 23, 2008, to be as follows:

	\$000
Payroll, Payroll Taxes & Benefits	207
Direct Mining	436
Direct Processing	55
Jericho Overhead	244
Corporate and Other	92
Legal and Professional	340
Total	1,374

RESULTS OF PROCESSING OPERATIONS

8. 94% of the Company's cash receipts in the February 15 Forecast arise from the sale of diamonds recovered from mining operations, with the balance being from the sale of diamonds that were part of the Company's original bulk sample. The forecast receipts from operations contained in the February 15 Forecast are based on assumptions regarding three key variables: tonnage processed; grade (i.e. the number of carats of diamonds per tonne of ore); and price per carat.
9. The February 15 Forecast includes approximately \$4.5 million in future receipts from processing production in the period February 6 to March 2, 2008. As shown in the following table, processing yielded a total estimated diamond value approximately \$2 million less than was forecast, accordingly, future cash receipts will be lower than forecast by a similar amount.

	Actual	Forecast	Variance
Dry tonnes processed	33,430	51,267	(17,837)
Carats recovered	26,686	48,704	(22,018)
Average Grade	0.79	0.95	(0.16)
Estimated Diamond Value ¹	\$2,483,666	\$4,532,881	(\$2,049,215)

¹ Using price assumptions from February 15 Forecast

10. The Company has identified factors that it believes are contributing to the processing results being significantly below its expectations:

- (i) The physical properties of the ore being processed have differed from expectations, resulting in an excessive amount of re-processing being required, thereby reducing average throughput; and
 - (ii) The nature of the ore being processed has also resulted in excessive wear on key machinery, thereby reducing efficiency and increasing maintenance time.
11. The Company has undertaken certain machinery repairs and believes that throughput and recovery should improve. Based on the latest available production data, average daily throughput since the repairs were completed was approximately 1790 tonnes at an average grade of 0.59. It should be noted, however, that this is only a two day period and it is, as yet, unclear whether these improvements can be sustained.
12. The Company no longer believes that the throughput and grade assumptions underlying the February 15 Forecast are achievable. Based on its revised throughput and grade assumptions, the Company now estimates that receipts from production in the period March 3 to 25, 2008 will be approximately \$1.5 million lower than the amount included in the February 15 Forecast.
13. The Company has prepared an analysis of the incremental benefit of the continuation of processing beyond March 26, 2008, which was the assumed date for the completion of processing incorporated in the February 15 Forecast. The Company estimates that the incremental benefit of continuing processing for the period March 27 to April 16, 2008, to be as follows:

	\$000
Incremental processing revenue	2,215
Incremental processing costs	(777)
Incremental net benefit	1,438

14. Accordingly, the Company now intends to continue processing operations until approximately April 16, 2008.

REVISED CASH FLOW FORECAST

15. The Company has prepared a revised cash flow forecast for the period February 24 to December 31, 2008 (the "March 6 Forecast"). A copy of the March 6 Forecast is attached hereto as Appendix B.
16. The major changes in the key assumptions underlying the March 6 Forecast as compared to the February 15 Forecast are as follows:
- (i) The continuation of processing until April 16, 2008;
 - (ii) The additional capital expenditures required for processing and care and maintenance; and
 - (iii) The inclusion of additional employee incentive arrangements as described later in this report.
17. Overall, for the period commencing from February 24, 2008 forward, the March 6 Forecast shows a reduction in net cash flow of approximately \$3.8 million as compared to the February 15 Forecast, summarized as follows.

	February 15 Forecast	March 6 Forecast	Difference
	\$000	\$000	\$000
Total Receipts	9,435	9,183	(252)
Total Disbursements	(13,810)	(17,356)	(3,546)
Net Cash Inflow/(Outflow)	(4,375)	(8,173)	(3,798)

EMPLOYEE INCENTIVE PLANS

18. The Company believes that additional employee incentives are required to ensure that those employees determined to be critical to: i) the completion of processing operations; ii) the efficient transitioning of the Jericho Mine to care and maintenance; or iii) the ongoing care and maintenance, are willing to continue their employment with the Company in its current the circumstances.

19. Without the employees necessary for processing operations, the Company would be unable to generate the estimated additional net revenue, as described earlier in this report. Without the employees necessary to oversee and protect the Jericho Mine while it is on care and maintenance, the Company may be unable to undertake the Marketing Process. Accordingly, the Company has developed additional employee incentive arrangements to address these issues (the "Additional Incentive Plan").
20. The Additional Incentive Plan provides for a bonus to be paid to each of the eligible employees, provided that the employee remains with the Company until his/her services are no longer required. The amount of such bonus varies depending on the length of time an employee is required. For most employees, the bonus amount would be one or two weeks additional salary and the Company estimates the total bonus amount for this group to be approximately \$115,000. The Company has determined that it will require approximately 15 employees on a longer term basis for the care and maintenance of the Jericho mine, and for this group of employees, the bonus amount would be six weeks salary, if they are terminated on or before June 30, 2008, or three months salary, if they are terminated thereafter. The Company estimates the total bonus amount for this group to be approximately \$165,000, if they are terminated on or before June 30, 2008, and \$340,000, if the terminations are at a later date.
21. Tiffany has been provided with the details of the Additional Incentive Plan and has informed the Company that it has no objection to the Company's proposal.
22. Based on the foregoing, the Additional Incentive Plan appears appropriate and reasonable in the circumstances. Accordingly, the Monitor respectfully recommends that the Company's request for the approval of Additional Incentive Plan be granted.

ENGAGEMENT OF BLAIR FRANKLIN CAPITAL PARTNERS INC.

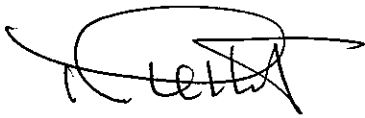
23. The Company is seeking Court approval for the engagement of Blair Franklin as its lead advisor for the Marketing Process, which would be undertaken in conjunction with the Monitor. As lead advisor, Blair Franklin would undertake the solicitation of offers and be the primary point of contact for the Marketing Process, with the Monitor providing such assistance as may be required.
24. Blair Franklin has provided the Company with an engagement letter (the “Engagement Letter”) setting out the terms of its engagement and the fees payable thereunder. As is common in such engagements, such fees comprise a “work fee” of \$50,000 per month, payable in advance, to a maximum of \$150,000 and a “success fee” payable in the event that a Transaction, as defined in the Engagement Letter, is completed.
25. The Monitor and the Company are each of the view that public disclosure of the specific terms of the success fee at this time may be prejudicial to the Marketing Process. The Monitor understands that the Company is, of course, prepared to provide a copy of the Engagement Letter to this Honourable Court, if so requested, but the Company would intend, if the Engagement Letter was to become part of the Court record, to seek a temporary sealing order with respect to the Engagement Letter, to be lifted only upon the completion the Marketing Process and the closing of the Transaction.
26. Tiffany has reviewed the Engagement Letter and has informed the Company that it does not object to the Company’s request for approval for the engagement of Blair Franklin on the terms set out in the Engagement Letter.
27. Blair Franklin has requested that, if its engagement is approved, the Company seek an amendment to paragraph 33 of the Initial Order to provide that the Administration Charge be expanded to include the fees and expenses of Blair Franklin payable under the Engagement Letter.


28. The Monitor has no objection to Blair Franklin being provided the entitlement to the benefit of the Administration Charge provided that the quantum of the Administration Charge, which is currently limited to \$1 million, is increased to an amount equal to \$1 million plus the amount payable to Blair Franklin pursuant to the Engagement Letter. If the limit of the Administration Charge is not so increased, the addition of Blair Franklin to the list of parties entitled to the benefit of the Administration Charge, could be prejudicial to the Monitor, the Monitor's counsel and the Company's counsel.

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

Dated this 12th day of March 2008.

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



 Nigel D. Meakin
Senior Vice President

Appendix A

Receipts and Disbursements to February 23, 2008

Appendix A

Variations between the February 15 Forecast and actual Receipts and Disbursements for the period February 10, 2008 to February 23, 2008 (the "Period") are summarized as follows:

	Cumulative for the Period from February 10, 2008 to February 23, 2008		
	Actual	Forecast	Variance
Receipts			
Diamond Sales	3,962,512	4,008,013	(45,501)
Other	487	800,000	(799,513)
Total Receipts	3,962,999	4,808,013	(845,014)
Disbursements			
Direct Mining ¹	572,445	537,123	(35,322)
Direct Processing ¹	4,956	100,647	95,691
Overhead ¹	630,485	1,029,351	398,866
Total Jericho Operation	1,207,886	1,667,121	459,235
Corporate Costs and Other ¹	203,470	307,444	103,974
Capex ¹	3,690	-	(3,690)
Legal and Professional Fees ¹	249,067	472,000	222,933
KERP	48,375	48,375	-
Total Disbursements	1,712,488	2,494,940	782,452
Net Cash Flow	2,250,511	2,313,073	(62,562)
Opening Cash	3,813,986	3,813,986	-
Ending Cash	6,064,497	6,127,059	(62,562)
Add: Cash held by Monitor ²	1,564,063	1,564,063	-
Adjusted Ending Cash	7,628,560	7,691,122	(62,562)

¹For the purposes of preparing the February 15 Forecast, the Company classified accrued post filing liabilities as of February 10 ("Forecast Payments") in the *Corporate Costs and Other* forecast disbursements for the week ended February 16. The Forecast Payments primarily relate to *Jericho Operations* and *Legal and Professional fees* although they have been classified in *Corporate Costs and Other*. For the purposes of this analysis, the Forecast Payments have been reclassified to those line items to which the amounts actually relate, as follows:

	Forecast Payments
Direct Mining	166,176
Direct Processing	60,000
Overhead	298,400
Corporate Costs and Other	(856,576)
Legal and Professional Fees	332,000
Total	-

²In respect of supplier payment arrangements in accordance with paragraph 25(j) of the Initial Order.

RECEIPTS

The unfavourable variance of \$800,000 in *Other* receipts is primarily related to:

- (i) A unfavourable temporary variance of \$691,000 related to a forecast cash receipt in respect of a bulk diamond sale that did not occur during the period. The sample has now been valued and total receipts from the sample are expected to be approximately \$691,000, of which \$675,000 is forecast to be received within the next two weeks;
- (ii) An unfavourable permanent variance of \$109,000 related to lower than forecast proceeds from the sale of the sample.

DISBURSEMENTS

Direct Mining

The unfavourable variance of approximately \$35,000 in Direct Mining costs is comprised primarily of:

- (i) An unfavourable permanent variance of \$334,000 in respect of services provided by Nuna Logistics Limited (“Nuna”) related to mining and processing services for a prior period as the payment has been omitted from the February 15 Cash Flow;
- (ii) A favourable temporary variance of \$240,000 in respect of services provided by Nuna. The variance is expected to reverse as invoices are rendered;
- (iii) An unfavourable variance of \$108,000 related to crushing costs. \$85,000 of the variance is permanent in nature due to higher than forecast costs incurred for the Period. The remaining portion is temporary in nature and is expected to reverse within the next two to four weeks;

- (iv) A favourable temporary variance of \$167,000 related to third party contractor services provided to the Company for which invoices have not yet been received. The timing variance is expected to reverse within the next two weeks;

Direct Processing

The favourable variance of \$95,690 in Direct Processing primarily relates to

- (i) A favourable variance of \$35,690 due to the Company's efforts to reduce and/or defer expenditures where possible. The Company believes that this variance is temporary in nature and will reverse as costs related to parts and supplies for the processing plant will likely need to be incurred in future weeks; and
- (ii) A favourable temporary variance of \$60,000 related to third party contractors. The variance is expected to reverse as invoices are rendered for expenditures incurred during the Period.

Overhead

The favourable variance of approximately \$399,000 in Overhead expenditures primarily relates to:

- (i) A favourable temporary variance of \$237,000 related to various camp, power plant and other mine-related miscellaneous expenditures incurred during the Period. The variance is expected to reverse as invoices are rendered and paid;

- (ii) A favourable variance of \$139,000 related to catering costs at the mine site. A portion of this variance is expected to be temporary in nature and to reverse upon receipt of invoices for catering services provided during the Period. Management estimates that a small portion of this variance is permanent in nature as slightly lower than Forecast headcount at the Jericho Mine site resulted in lower than Forecast food purchases for the Period;
- (iii) An unfavourable temporary variance arising as a result of the transfer of \$44,000 more in respect of payment arrangements for a third party service provider pursuant to paragraph 25(j) of the Initial Order;
- (iv) A favourable variance of \$29,000 related to environmental consultant fees. The Company estimates that approximately 50% of this variance is permanent and 50% temporary. The permanent variance is due to a reduction in work being performed by external environmental consultants due to a reluctance to continue working. The temporary variance is due to a delay in receipt of invoices for those services that did continue. The temporary variance is expected to reverse within the next couple of weeks;
- (v) A favourable temporary variance of \$43,000 in respect of costs related to third party geological work currently being performed at the mine site. The favourable variance is expected to reverse in the near future as the geological report nears completion and invoices are rendered;
- (vi) An unfavourable permanent variance of \$5,000 in respect of labour costs.

Corporate Costs

The favourable variance of approximately \$104,000 in Corporate Costs is comprised primarily of the following items:

- (i) A favourable temporary variance of \$118,000 related to labour costs, office and general, director's fee, regulatory and travel costs. The variance is expected to reverse in the upcoming weeks as invoices are rendered;
- (ii) An unfavourable variance of \$33,000. \$22,000 of the variance is related primarily to interest income expected to be received by month end. The remaining variance is permanent in nature and primarily a result of higher than forecast goods and service tax expenditures, and higher than forecast exploration salaries;
- (iii) A favourable temporary variance of \$19,000 related to letter of credit fees and miscellaneous other costs. The variance is a reversal of a prior timing difference.

Legal and Professional Fees

A favourable temporary variance of \$223,000 in Legal and Professional fees arose during the Period. The variance is expected to reverse in future periods as invoices for services rendered are received.

Appendix B

March 6 Forecast

Tahera Diamond Corporation

	24-Feb-08	2-Mar-08	9-Mar-08	16-Mar-08	23-Mar-08	30-Mar-08	6-Apr-08	13-Apr-08	20-Apr-08	27-Apr-08	4-May-08	11-May-08
Week Ended	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	3-May-08	10-May-08	17-May-08
Receipts												
Diamond Sales	-	-	-	82,677	3,399,336	165,405	-	-	72,761	3,894,156	229,860	-
Other	-	675,249	-	14,453	-	-	-	-	-	-	-	-
Total Receipts	-	675,249	-	97,130	3,399,336	165,405	-	-	72,761	3,894,156	229,860	-
Disbursements												
Direct Mining	162,638	637,067	93,952	80,982	34,098	-	-	-	-	-	-	-
Direct Processing	-	197,782	97,876	17,876	9,476	25,000	-	25,000	-	-	-	-
Overhead	2,663,553	182,287	1,138,797	133,165	141,898	672,582	24,335	549,497	24,335	987,959	24,335	412,160
Total Jericho Operations	2,826,191	1,017,136	1,330,625	232,023	185,473	697,582	24,335	574,497	24,335	987,959	24,335	412,160
Corporate Costs and Other	308,037	14,101	116,055	2,857	25,396	215,338	(3,123)	71,722	(4,661)	123,464	(2,456)	71,287
Capex	900	-	240,000	-	425,000	-	-	-	-	-	-	-
Legal and Professional Fees	209,533	340,037	70,000	70,000	70,000	120,000	70,000	70,000	56,000	105,000	55,000	55,000
KERP	-	-	-	-	-	132,500	-	-	-	45,000	-	33,750
Total Disbursements	3,344,661	1,371,274	1,756,680	304,880	705,869	1,165,420	91,212	716,219	74,674	1,261,423	76,879	572,207
Net Cash Flow	(3,344,661)	(696,025)	(1,756,680)	(207,750)	2,693,467	(1,000,015)	(91,212)	(716,219)	(1,913)	2,632,733	152,981	(572,207)
Opening Cash	6,064,497	2,719,836	2,023,811	267,131	59,381	2,752,848	1,752,833	1,661,621	945,402	943,489	3,576,222	3,729,203
Ending Cash	2,719,836	2,023,811	267,131	59,381	2,752,848	1,752,833	1,661,621	945,402	943,489	3,576,222	3,729,203	3,156,996
Add: deposit on hand with Monitor	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225
Adjusted ending cash	4,514,061	3,818,036	2,061,356	1,853,606	4,547,073	3,547,058	3,455,846	2,739,627	2,737,714	5,370,447	5,523,428	4,951,221

Tahera Diamond Corporation

Week Ended	18-May-08	25-May-08	1-Jun-08	8-Jun-08	15-Jun-08	22-Jun-08	Q3	Q4	Total
	24-May-08	31-May-08	7-Jun-08	14-Jun-08	21-Jun-08	28-Jun-08			
Receipts									
Diamond Sales	-	83,352	-	9,438	-	-	17,820	-	7,954,802
Other	-	537,000	-	-	-	-	1,650	-	1,228,352
Total Receipts	-	620,352	-	9,438	-	-	19,470	-	9,183,154
Disbursements									
Direct Mining	-	-	-	-	-	-	-	-	1,008,738
Direct Processing	-	-	-	-	-	-	-	-	373,010
Overhead	96,672	213,842	648,778	24,335	258,849	24,335	792,765	1,464,202	10,478,678
Total Jericho Operations	96,672	213,842	648,778	24,335	258,849	24,335	792,765	1,464,202	11,860,426
Corporate Costs and Other	(3,873)	72,777	67,848	(5,411)	65,750	(4,623)	394,506	459,107	1,984,108
Capex	-	-	-	-	-	-	-	-	665,900
Legal and Professional Fees	55,000	55,000	40,000	40,000	40,000	40,000	455,000	-	2,014,570
KERP	-	70,000	-	-	-	-	-	550,000	831,250
Total Disbursements	147,799	411,619	756,626	58,924	364,599	59,712	1,642,271	2,473,309	17,356,254
Net Cash Flow	(147,799)	208,733	(756,626)	(49,486)	(364,599)	(59,712)	(1,622,801)	(2,473,309)	(8,173,100)
Opening Cash	3,156,996	3,009,197	3,217,930	2,461,304	2,411,818	2,047,219	1,987,507	364,706	6,064,497
Ending Cash	3,009,197	3,217,930	2,461,304	2,411,818	2,047,219	1,987,507	364,706	(2,108,603)	(2,108,603)
Add: deposit on hand with Monitor	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225	1,794,225
Adjusted ending cash	4,803,422	5,012,155	4,255,529	4,206,043	3,841,444	3,781,732	2,158,931	(314,378)	(314,378)

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
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**ONTARIO
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at Toronto

MOTION RECORD

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