

Environmental Monitoring Advisory Board

Financial Statements

March 31, 2011

Environmental Monitoring Advisory Board

Financial Statements

Year ended March 31, 2011

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Independent Auditor's Report

To the Members of Environmental Monitoring Advisory Board

I have audited the accompanying financial statements of the Environmental Monitoring Advisory Board which consist of the Statement of Financial Position as at March 31, 2011 and the Statement of Operations, the Statement of Changes in Fund Balances and the Statement of Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory notes to the financial statements.

Responsibility of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement due to fraud or error. This responsibility includes selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Responsibility of the auditor

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. I am also required to comply with applicable ethical standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements due to fraud or error. In making those risk assessments, the auditor considers those internal controls that are relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, the auditor expresses no such opinion. An audit also includes evaluating the appropriateness of the accounting policies applied and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence which I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion these financial statements present fairly, in all material respects, the financial position of the Environmental Monitoring Advisory Board as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Other matters

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in the Schedules to the Statement of Operations is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'C. Jeffery', enclosed within a circular stamp or seal.

Yellowknife, Northwest Territories
October 12, 2011

Charles Jeffery
Chartered Accountant

Environmental Monitoring Advisory Board

Statement of Financial Position

Restated

For the year ended March 31, 2011	March 2011	March 2010
	\$	\$
Assets		
Current assets		
Cash	837,444	892,141
Accounts receivable (Note 3)	370	370
Contributions receivable (Note 3)	6,700	-
Holdbacks receivable - 2009 (Note 3)	-	4,000
Prepaid rent	2,625	-
	847,139	896,511
Property, plant and equipment (Note 4)	11,136	12,017
	858,275	908,528
Liabilities		
Current liabilities		
Payroll deductions payable - trust liability	8,925	31,632
Accounts payable and accrued liabilities	53,538	110,212
Contributions refundable - Traditional Knowledge Camps	13,515	13,515
Deferred net revenue - Diavik Diamond Mines Inc. (Note 5)	726,000	569,000
Net unexpended contributions repayable (Note 6)	45,161	-
	847,139	724,359
Net Assets		
Net unrestricted assets	-	172,509
Investment in capital assets	11,136	12,017
	858,275	908,885

Approved by the board of directors:

Director

Director

Environmental Monitoring Advisory Board

Statement of Operations

Restated

For the year ended March 31, 2011

	March 2011	March 2010	
	\$	\$	
Revenue			
Diavik Diamond Mines Inc (DDMI) Contributions (Note 3)	719,000	697,000	
DDMI - Application of accumulated interest earned & unused funding (Note 3)	(150,000)	(150,000)	
Canadian Government assistance			
Department of Indian Affairs and Northern Development	6,700	-	
Government of the Northwest Territories	6,700	-	
Interest income	3,403	467	
Cost recovery	2,890	-	
	588,693	547,467	
Operating Expenditures			
Administration	Schedule 1	120,276	88,316
Management services	Schedule 2	265,100	244,213
Board Expenditures	Schedule 3	148,904	136,635
Community Updates	Schedule 4	15,230	18,197
Capacity Funding	Schedule 5	90,000	150,000
Traditional Knowledge Workshop	Schedule 6	-	120
Technical Expertise	Schedule 6	45,058	45,933
Traditional Knowledge Monitoring	Schedule 6	28,000	-
EA Review	Schedule 7	-	62,532
Capital Asset Purchases Charged To Operations		3,206	2,137
		715,774	748,083
Excess revenue over expenditure (expenditure over revenue)		(127,081)	(200,616)

Environmental Monitoring Advisory Board

Statement of Changes in Fund Balances

	Restated	
For the year ended March 31, 2011	March 2011	March 2010
	\$	\$
Net assets - unrestricted - Note 6		
Balance at the beginning of the year	167,637	370,867
Prior period adjustment		
Correct wage expenses to remove employee deductions for disability benefit:	4,605	2,258
	172,242	373,125
Excess revenue over expenditures (expenditures over revenue)	(127,081)	(200,616)
	45,161	172,509
Change in accounting policy - Note 6 - unexpended funds now repayable	(45,161)	-
Balance at the end of the year	-	172,509
Net assets - invested in capital assets		
Balance at the beginning of the year	12,017	14,573
Purchase of capital assets	3,206	2,137
	15,223	16,710
Loss on disposition of capital assets	-	-
Amortization of capital assets	(4,087)	(4,693)
Balance at the end of the year	11,136	12,017

Environmental Monitoring Advisory Board

Statement of Cash Flows

For the year ended March 31, 2011

	March 2011	March 2010
	\$	\$
Cash provided by (used in)		
Operating activities		
Excess revenue over expenditures (expenditures over revenue)	(127,081)	(200,616)
Purchase of equipment charged to operations	3,206	2,137
	(123,875)	(198,479)
Net change in non-cash working capital balances (Note 6)	(84,616)	3,794
Net cash provided by (used in) operations	(208,491)	(194,685)
Investing activities		
Purchase of equipment	(3,206)	(2,137)
Net Cash provided by (used in) investing activities	(3,206)	(2,137)
Financing Activities		
Increase in deferred revenue - Diavik	-	22,000
Decrease deferred revenue - Diavik	157,000	-
Net Cash provided by (used in) financing activities	157,000	22,000
Increase (decrease) in cash position	(54,697)	(174,822)
Cash position, beginning of year	892,141	1,066,963
Cash position, end of year	837,444	892,141

Environmental Monitoring Advisory Board

Notes to Financial Statements

For the year ended March 31, 2011

The Environmental Monitoring and Advisory Board ("the Board") is a not-for-profit organization established as a requirement of the Diavik Environmental Agreement. The Board is exempt from income tax in accordance with section 149(1)(l) of the Income Tax Act.

The aim of the Board is to provide a meaningful role for Aboriginal Peoples in the review and implementation of environmental monitoring plans with respect to the Diavik Diamond Mine site in the Northwest Territories. The Board will be in place until full and final reclamation of the mine is complete.

1 Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Because a precise determination of some assets and liabilities depends on future events, the presentation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment. Actual results could differ from those estimates and approximations. The financial statements have, in the opinion of management, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Going Concern

Financial Statements, under Canadian GAAP, are prepared on the assumption that the entity is a going concern, meaning that it will continue in operations for the foreseeable future and that it will be able to realize assets and discharge liabilities in the normal course of its operations.

(b) Revenue recognition

The Board follows the deferral method of accounting for contributions. Under this method, restricted contributions are recognized as revenue when the related expenditures are incurred. Restricted contributions received but for which the related expenditures have not been incurred are reported as deferred revenue.

Unrestricted contributions are recognized as revenue when received, or when receivable if the amount can be reasonably estimated and collection is reasonably assured.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining balance method at the following rate:

Office Equipment	30%
Computer Equipment	30%
Furniture and Fixtures	30%

(d) Economic dependence

The Board is dependent on its funding from Diavik Diamond Mines Inc. The Board may not be viable without these contributions. See also Note 3.

(e) Allocation of expenditures

Program administration expenditures are not allocated across programs. Expenditures are allocated as they are incurred to specific programs.

Environmental Monitoring Advisory Board

Notes to Financial Statements

For the year ended March 31, 2011

(f) Financial instruments

The company's financial instruments consist of accounts receivable and accounts payable. These financial instruments might expose the company to interest rate and credit risks. In the opinion of management, the financial statements and accompanying notes contain the information necessary to reasonably assess these risks.

Risk Management

The board reviews financial risks and sets appropriate limits and controls when necessary. The board's strategy for identifying risks and managing such risks has not changed significantly from the prior fiscal year.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will affect the board's revenue, expenses and financial instruments. The board does not have a significant number of interest earning assets and the board does not have a significant number of interest bearing liabilities. The board does not currently use derivative financial instruments to manage its interest rate risks.

Credit Risks

Credit risk is the probability of a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The board is exposed to credit risk through its investment in accounts receivable. The board manages the risk by having management maintain continuous communication with Diavik Diamond Mines Inc. and related parties, and continually review past due accounts receivables in order to identify matters which could delay recoveries at an early stage. The board carries adequate provisions for expected and probable losses from credit risk.

Liquidity Risks

Liquidity risk is the risk that the board will not be able to meet its financial obligations as they become due. The board manages liquidity risk by reviewing forecasted cash flows from operating activities, forecasted financing activities and forecasted investing activities including budgeted capital expenditures and related financing.

Fair Values

The methods and assumptions followed to disclose fair value are inherently matters of judgment. Accordingly, fair values do not necessarily reflect the amounts that would be recovered or paid under the circumstances that immediate settlement of the financial instruments were required. The use of different methods of estimating and different assumptions could have a material effect on the estimated fair value amounts. The methodologies used are as follows:

Due to the short-term nature of accounts receivable, accounts payable and accrued liabilities the carrying amounts approximate fair value.

The fair value of long term advances, capital leases and long term debt are determined by estimating the future cash flows and discounting these future cash flows using a rate which takes into account the board's spread for credit risks at the year -end for similar terms and types of debt arrangements. Based on these calculations the carrying amounts approximate fair value.

Environmental Monitoring Advisory Board

Notes to Financial Statements

For the year ended March 31, 2011

	March 2011	March 2010
	\$	\$

2 Capital Plan

Capital (Section 1535 CICA Handbook)

The objective of the board is to safeguard the ability of the entity to continue as a going concern by applying its capital resources at the least degree of risk required to the purpose of providing advisory services regarding environmental monitoring at the Diavik Mine.

Capital Covenants

The board's financial instruments do not carry covenants in which compliance could affect the capital structure of the board.

3 Accounts receivables

Accounts receivable	370	370
Contributions receivable	6,700	-
Holdbacks receivable - 2009	-	4,000
	7,070	4,370
Allowance for doubtful accounts	-	-
	7,070	4,370

4 Property, plant and equipment

	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer Equipment	43,807	36,992	6,815	5,844
Furniture & Fixtures	15,154	12,430	2,724	3,891
Office Equipment	20,429	18,832	1,597	2,282
	79,390	68,254	11,136	12,017

5 Deferred contributions

Deferred revenue consists of the funds contributed by Diavik Diamond Mines Inc. for the upcoming operating year. This amount was received in the current operating year, and will be recognized as revenue over the following operating year as goods and services are acquired.

Diavik Diamond Mines Inc Contributions for Upcoming Fiscal Year	726,000	719,000
Diavik Diamond Mines Inc - application of Accumulated Interest & Unexpended Contributions (Note 3)	-	(150,000)
Deferred revenue - Diavik Diamond Mines Inc.	726,000	569,000

Environmental Monitoring Advisory Board

Notes to Financial Statements

For the year ended March 31, 2011

	March 2011	March 2010
	\$	\$

6 Arbitration award and contributions from Diavik

Dispute resolution process

Diavik Diamond Mines Inc. (Diavik) reduced funding for fiscal 2009-2010 & 2010-2011 by \$150,000 each fiscal year, representing an approximate 21% reduction in expected funding. This reduction was based on Diavik's interpretation of Article 4.8(g) of the Environmental Agreement (EA). This interpretation was disputed by the Environmental Monitoring Advisory Board (EMAB). The Dispute Resolution process, as outlined in the EA under Article 16, was followed to resolve the dispute. The Arbitration Award found that the reduced funding contribution of Diavik for the budget period of 2009-2011 was appropriate under the terms of the EA.

Conclusions from the arbitration award

The Arbitration Award (January 16, 2011) made the following findings:

"a. EMAB's unexpended funds as at March 31, 2009 must be applied to its costs in the following budget period."

"d. Interest should form part of the calculation of unexpended funds and be treated in the same way."

"g. EMAB may elect to use funds designated in a budget for a program that continues in a new budget period for that program. However, such programs and funds must still be considered within the context of the overall budget (exclusive

"j. EMAB may reallocate actual spending from budget spending during a budget period in keeping with its bylaws, the guiding principles of the EA, and as overseen by members of the board."

Change in accounting policy

The findings of the Arbitration Award resulted in a change of accounting policy for the recognition and treatment of unexpended funds. Previously EMAB had classified the unexpended funds as unrestricted net assets. Beginning in 2011, they will now be classified as a liability called *net unexpended contributions repayable*. EMAB may not accumulate unrestricted net assets from unexpending DDML funding.

7 Net change in non-cash working capital balances

Operating resources provided by:

Recovery of Contributions Receivable	-	6,981
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	-	6,981
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Operating resources applied to:

Increase accounts receivable	(2,700)	-
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Increase in prepaid rent	(2,625)	-
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Decrease trade accounts payable	(56,584)	(3,187)
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Decrease in trust liabilities - payroll deductions	(22,707)	-
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	(84,616)	(3,187)
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Net Change in Non-Cash Working Capital

	(84,616)	3,794
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Environmental Monitoring Advisory Board

Notes to Financial Statements

For the year ended March 31, 2011

8 Contingencies

Funding

The Board relies on funding from Diavik Diamond Mines Inc. for continued operations. The Board can reduce program spending in the event that funding becomes uncertain, however the existence of fixed costs will adversely affect the entity if funding is decreased materially.

9 Indemnities and guarantees

Management has determined that with respect to Section 3290 of the CICA Handbook, there are no items to disclose regarding indemnities or guarantees.

10 Subsequent Events

Management has determined that with respect to Section 3820.07 of the CICA Handbook, there are no items to disclose regarding events subsequent to the year-end date.

11 Comparative figures

Certain figures for the prior year have been reclassified to make their presentation identical to that adopted in the current year.

Environmental Monitoring Advisory Board

Schedule to Statement Operations

Schedule #1

For the year ended March 31, 2011

	March 2011	March 2010
	\$	\$
Administration		
Advertising	3,735	2,816
Annual report	10,102	11,130
Auditor	5,906	4,032
ADP Payroll Services	1,082	829
Bank charges and interest	942	682
Board Proposals	-	1,112
Conference Calls	-	804
Consultants	-	1,336
Dues and licenses	-	184
Insurance	9,554	10,334
Miscellaneous	-	43
Office supplies	2,497	2,316
Postage and freight	1,107	1,097
Printing and photocopy	899	728
Legal fees	39,975	4,193
Public Relations	9,743	10,179
Publications	-	26
Rent	27,730	26,460
Repairs and maintenance	365	1,865
Telephone and internet	6,618	6,944
Text Translation	-	274
Web Page	21	-
Food/Beverage	-	112
Honoraria	-	175
Hospitality	-	290
Translation	-	300
Travel	-	55
	120,276	88,316

Environmental Monitoring Advisory Board

Management Services

Schedule #2
Restated

For the year ended March 31, 2011

	March 2011	March 2010
	\$	\$
Management Services		
Salaries	233,772	215,582
Employee Benefits	29,098	25,864
Workers' Compensation	1,639	1,122
Travel	-	-
Professional development	591	972
Other	-	673
	265,100	244,213

Environmental Monitoring Advisory Board

Board Expenditures

Schedule #3

For the year ended March 31, 2011

	March 2011	March 2010
	\$	\$
Board Expenditures		
Accommodation	16,986	12,039
Board proposals	-	3,768
Conference calls	4,191	390
Food and beverages	3,833	2,109
General community consultation	35,525	47,950
Hall rental	-	525
Honoraria	54,044	47,950
Hospitality	20	1,519
Per Diem	6,107	4,773
Preparation	1,575	1,050
Transportation	26,623	14,417
Other	-	145
	148,904	136,635

Environmental Monitoring Advisory Board

Community Updates

Schedule #4

For the year ended March 31, 2011

	March 2011	March 2009
	\$	\$
Community Updates		
Advertising	-	370
Community Consultations	-	700
Accommodation	989	1,589
Food & Beverages	4,356	2,930
Hall Rental	1,675	1,220
Hospitality	150	800
Per Diem	1,100	495
Translation	3,388	4,167
Travel	2,435	3,558
Freight	1,137	2,368
	15,230	18,197

Environmental Monitoring Advisory Board

Community Consultation

Schedule #5

For the year ended March 31, 2011

	March 2011	March 2009
	\$	\$
Capacity Funding		
Lutsel K'e Dene Band	30,000	50,000
North Slave Metis Alliance	30,000	50,000
Yellowknives Dene First Nation	30,000	50,000
	90,000	150,000

Environmental Monitoring Advisory Board

Projects

Schedule #6

For the year ended March 31, 2011

	March 2011	March 2010
	\$	\$
Projects		
Traditional Knowledge Workshop		
Accommodation	-	-
Food/Beverage	-	120
Hall rental	-	-
Honoraria	-	-
Per diem	-	-
Translation	-	-
Transportation	-	-
	-	120
Professional Development		
Per Diem	-	226
Travel	-	130
	-	356
Technical Expertise		
Consultants	45,058	45,933
Traditional Knowledge Monitoring program		
Tlicho Government - Caribou monitoring program	14,000	-
North Slave Metis Alliance - Traditional Metis knowledge program	14,000	-
	28,000	-

Environmental Monitoring Advisory Board

EA Review

Schedule #7

For the year ended March 31, 2011

	March 2011	March 2010
	\$	\$
EA ("Environmental Agreement") Review		
Advertising	-	415
Accommodations	-	3,629
Food/Beverage	-	2,750
Hall Rental	-	900
Honoraria	-	8,100
Per Diem	-	1,865
Travel	-	3,216
Consultant	-	35,259
Translation	-	6,398
	-	62,532