

CONTENTS

	Page
AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEET	4
CONSOLIDATED STATEMENT OF EARNINGS	5
CONSOLIDATED STATEMENT OF RETAINED EARNINGS	6
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8

Because the inventory as of April 30, 1979 enters materially into the results of operations and changes in financial position for the year ended April 30, 1980, we do not express an opinion on the accompanying consolidated statements of earnings, retained earnings and changes in financial position.

The company is involved in certain litigation as described in note F. The outcome of this litigation cannot be predicted at this time.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties relative to the litigation described in the fourth paragraph above been known, the consolidated balance sheet referred to above presents fairly the consolidated financial position of Megadiamond Industries, Inc. and Subsidiaries as of April 30, 1980, in conformity with generally accepted accounting principles after restatement for the change, with which we concur, in the method of accounting for leases as described in note C.

Chicago, Illinois
July 25, 1980

Alexander Grant & Company