Alexander Grant
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Megadiamond Industries, Inc.

We have examined the consolidated balance sheet of Megadiamond Industries, Inc. (a Delaware corporation) and Subsidiaries as of April 30, 1980, and the related consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as stated in the following paragraph.

We did not observe the taking of the physical inventory of Megadiamond Industries, Inc. as of April 30, 1979 (stated as $806,786), since this date was prior to our initial engagement as auditors for this company. The company's records do not permit retroactive tests of inventory quantities.

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.

Alexander Grant + Company

Chicago, Illinois
July 25, 1980