

Consolidated Financial Statements of

**BRC DiamondCore Ltd.**  
(formerly BRC Diamond Corporation)

December 31, 2008 and 2007

Deloitte & Touche LLP  
Brookfield Place  
181 Bay Street  
Suite 1400  
Toronto ON M5J 2V1  
Canada

Tel: 416-601-6150  
Fax: 416-601-6151  
www.deloitte.ca

## **Auditors' Report**

To the Shareholders of  
BRC DiamondCore Ltd. (formerly BRC Diamond Corporation)

We have audited the consolidated balance sheets of BRC DiamondCore Ltd. (formerly BRC Diamond Corporation) as at December 31, 2008 and 2007, and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Deloitte & Touche LLP"*

Chartered Accountants  
Licensed Public Accountants  
March 30, 2009

**BRC DiamondCore Ltd.**  
(formerly BRC Diamond Corporation)  
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# BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

## Consolidated Balance Sheets

December 31, 2008 and 2007 (expressed in Canadian dollars)

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 198,085	\$ 931,845
Prepaid expenses and other assets	562,144	402,652
Inventory (Note 4)	121,987	-
	<u>882,216</u>	<u>1,334,497</u>
<b>NON CURRENT</b>		
Restricted cash (Note 2)	308,014	-
Deferred transaction costs (Note 3)	-	2,200,165
Mineral properties and deferred exploration expenditures (Note 9)	9,075,139	14,188,659
Capital assets (Note 10)	8,846,955	593,667
	<u>18,230,108</u>	<u>16,982,491</u>
	<u>\$ 19,112,324</u>	<u>\$ 18,316,988</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Notes 5 and 7)	\$ 7,542,084	\$ 2,599,292
Other liabilities	201,557	-
Debt (Note 6)	6,172,317	3,022,899
	<u>13,915,958</u>	<u>5,622,191</u>
<b>NON-CURRENT</b>		
Asset retirement obligations (Note 8)	2,131,648	-
Long term lease (Note 7)	499,484	-
	<u>2,631,132</u>	<u>-</u>
Going concern (Note 1)		
Commitments, contingencies and guarantees (Note 13)		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)	105,815,141	15,826,524
Contributed surplus (Notes 11(b) and (e))	6,934,641	2,757,191
Black economic empowerment reserve	1,076,123	
Deficit	(108,890,567)	(5,888,918)
Accumulated other comprehensive loss (Note 11(f))	(2,370,104)	-
	<u>2,565,234</u>	<u>12,694,797</u>
	<u>\$ 19,112,324</u>	<u>\$ 18,316,988</u>

The accompanying notes are an integral part of these financial statements.

APPROVED BY THE BOARD

(Signed) "Michiel C.J. de Wit"

Michiel C.J. de Wit, Director

(Signed) "Brian P. Scallan"

Brian P. Scallan, Director

# BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

## Consolidated Statements of Operations and Deficit

Years ended December 31, 2008 and 2007 (expressed in Canadian dollars)

	<u>2008</u>	<u>2007</u>
<b>Expenses</b>		
Consulting fees	\$ (1,857,651)	\$ (692,776)
Depreciation	(104,205)	-
Professional fees	(958,144)	(384,375)
Management fees	-	(49,333)
General and administrative	(2,195,488)	(445,267)
Stock-based compensation (Note 11(b))	(1,687,323)	-
Foreign exchange gain realized	15,705	-
Foreign exchange gain/(loss) unrealized	1,694,736	(206,483)
<b>Loss before the under noted items</b>	<b>(5,092,370)</b>	<b>(1,778,234)</b>
Interest income	101,954	-
Interest expense	(48,015)	(22,899)
Impairment of mineral properties and capital assets (Notes 9 and 10)	(43,404,889)	(16,297)
Impairment of goodwill (Note 3)	(54,558,329)	-
Loss on sale of investment	-	(15,461)
<b>Loss for the year before income tax</b>	<b>(103,001,649)</b>	<b>(1,832,891)</b>
<b>Income taxes</b>	<b>-</b>	<b>-</b>
<b>Net loss</b>	<b>(103,001,649)</b>	<b>(1,832,891)</b>
<b>Deficit - beginning of the year</b>	<b>(5,888,918)</b>	<b>(4,056,027)</b>
<b>Deficit - end of the year</b>	<b>\$ (108,890,567)</b>	<b>\$ (5,888,918)</b>
<b>Basic and diluted loss per share</b> (Note 11(d))	<b>\$ (4.20)</b>	<b>\$ (0.14)</b>
<b>Weighted average number of common shares outstanding</b>	<b>24,546,305</b>	<b>13,243,967</b>

GOING CONCERN (Note 1)

The accompanying notes are an integral part of these financial statements.

# **BRC DiamondCore Ltd.**

(formerly BRC Diamond Corporation)

## **Consolidated Statements of Comprehensive Loss**

Years ended December 31, 2008 and 2007 (expressed in Canadian dollars)

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	<u>2008</u>	<u>2007</u>
Net loss	\$ (103,001,649)	\$ (1,832,891)
Unrealized foreign currency loss on self sustaining-operation	(2,370,104)	-
Reversal of fair value adjustment upon disposition of investment	-	13,950
Comprehensive loss	<u>\$ (105,371,753)</u>	<u>\$ (1,818,941)</u>

GOING CONCERN (Note 1)

The accompanying notes are an integral part of these financial statements.

# BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

## Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007 (expressed in Canadian dollars)

	<u>2008</u>	<u>2007</u>
<b>Net (outflow) inflow of cash related to the following activities</b>		
<b>Operating</b>		
Net loss for the year	\$ (103,001,649)	(1,832,891)
Items not affecting cash		
Depreciation	104,205	-
Impairment of mineral properties, deferred exploration expenditure and capital assets	43,404,889	16,297
Stock-based compensation and stock-based consulting fees	1,687,323	219,900
Loss on sale of investment	-	15,461
Impairment of goodwill	54,558,329	-
	<u>(3,246,903)</u>	<u>(1,581,233)</u>
Net change in non-cash working capital items		
Prepaid expenses and other assets	970,145	(400,865)
Accounts payable and accrued liabilities	2,140,028	2,323,005
Due from related parties	-	9,676
Accrued interest payable	-	22,899
Inventory	58,506	-
	<u>(78,224)</u>	<u>373,482</u>
<b>Investing</b>		
Cash balances acquired from Diamond Core	1,836,315	-
Proceeds from sale of investment	-	76,532
Deferred charges	-	(2,200,165)
Mineral properties and deferred exploration expenditures	(5,018,241)	(5,564,310)
Capital assets	(1,148,028)	(569,887)
	<u>(4,329,954)</u>	<u>(8,257,830)</u>
<b>Financing</b>		
Issuance of common shares and warrants	525,000	5,443,100
Increase in short-term debt	3,149,418	3,000,000
	<u>3,674,418</u>	<u>8,443,100</u>
<b>(Decrease)/Increase in cash during the year</b>	<b>(733,760)</b>	<b>558,752</b>
<b>Cash - Beginning of the year</b>	<b>931,845</b>	<b>373,093</b>
<b>Cash - End of the year</b>	<b>\$ 198,085</b>	<b>931,845</b>

### SUPPLEMENTARY INFORMATION

Interest paid	\$ 48,015	\$ -
Income taxes paid	\$ 128,493	\$ -

### GOING CONCERN (Note 1)

Depreciation of capital assets of \$2,604,300 was capitalized to mineral properties in 2008 (2007 - \$137,850).

During the year ended December 31, 2008, the Company issued approximately 12 million common shares for a non-cash consideration of \$89,463,617 to acquire Diamond Core Resources Limited (See Note 3).

The accompanying notes are an integral part of these financial statements.

# **BRC DiamondCore Ltd.**

(formerly BRC Diamond Corporation)

## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **1. PRINCIPAL BUSINESS ACTIVITIES AND CONTINUATION OF THE BUSINESS**

The principal business of BRC DiamondCore Ltd. is the acquisition, exploration and eventual development of mineral properties. In connection with the acquisition of Diamond Core Resources Limited (“Diamond Core”) as described in Note 3, the name of the Company was changed from BRC Diamond Corporation to BRC DiamondCore Ltd. (“BRC DiamondCore” or the “Company”). For the financial year ended December 31, 2008, the balance sheet and statement of operations include operations of Canada and subsidiaries in the Democratic Republic of the Congo (“DRC”) and South Africa, whereas for the year ended December 31, 2007 only operations from Canada and the DRC were included in the balance sheet and statement of operations (Note 16).

These financial statements of BRC DiamondCore have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations. Due to the current significant economic turmoil and global credit crisis that have impacted the demand for many goods and commodities, particularly the Company’s commodity of diamonds, the Company has incurred a significant net loss of \$103,001,649 in the current year (2007 - \$1,832,891). The Company’s accumulated deficit as at December 31, 2008 was \$108,890,567 (2007 – 5,888,918). The Company had a working capital deficit of \$13,033,742 as at December 31, 2008 and had a net decrease in cash of \$733,760 and used net cash in operating activities of \$78,224 during the year. While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions may cast substantial doubt upon the validity of this assumption. In the event the Company is unable to identify recoverable reserves, receive the necessary permitting, or arrange appropriate financing, the carrying value of the Company’s assets could be subject to further material adjustment. Furthermore, certain current market conditions including declining diamond carat prices have cast significant doubt upon the validity of this assumption.

The Company’s ability to continue operations in the normal course of business is dependent on several factors, including its ability to secure additional funding and achieve or sustain profitable operations. Management is exploring all available options to secure additional funding including equity and debt financing, sale of non-core assets and strategic partnerships. In addition, the recoverability of amounts shown for mineral properties and long-lived assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain financing to complete the development of the properties where necessary and upon future profitable production, or, alternatively, upon the Company’s ability to recover its spent costs through a disposition of its interests, all of which are uncertain in the current climate. It is not possible to determine with any certainty the success and adequacy of these initiatives, nor the timing of completion of these initiatives to enable the Company to continue until such time as when diamond prices recover, and the Company is able to earn positive operating cash flows.

These financial statements do not include any additional adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary if the Company was unable to continue as a going concern.

# **BRC DiamondCore Ltd.**

(formerly BRC Diamond Corporation)

## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### ***Basis of consolidation***

These financial statements represent the consolidated financial statements of the Company, which includes its accounts and those of its subsidiaries, BRC Diamond South Africa (Pty) Limited and BRC DiamondCore Congo SPRL, and the entities acquired during the Diamond Core Resources (Pty) Limited transaction (Note 3) namely, Diamond Core Resources, Dikeing Mining (Pty) Ltd, Diamond Core Kimberlite Projects (Pty) Ltd, Diamond Core Alluvial Projects (Pty) Ltd, Diamond Core Mining and Exploration (Pty) Ltd, Diamond Core Technical Services (Pty) Ltd, Diamond Core Trading (Pty) Ltd, Samadi Resources (Pty) Ltd, Samadi Gemsbok (Pty) Ltd, Samadi Exploration (Pty) Ltd, Samadi Douglas (Pty) Ltd, Prieska Diamond Mining (Pty) Ltd, Sandstraat Eksploratie (Pty) Ltd and Sandrif (Pty) Ltd (collectively the “Subsidiaries”) all of which are controlled through ownership of majority voting interests. All inter-company balances and charges have been eliminated.

#### ***Revenue***

Revenue is recognized when diamonds are sold to third parties at the tender house. As the Company is currently in the development stage, any revenues earned reduce the carrying value of deferred exploration expenditures.

#### ***Use of estimates***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In addition to the going concern assumption, assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include mineral properties, capital assets, asset retirement obligations, future income taxes, goodwill and stock-based compensation.

#### ***Comprehensive income, Financial instruments, Hedges and Equity***

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Due to the short term nature of the Company’s financial assets and liabilities, management believes that the book value approximates the fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as either loans and receivables, held-for-trading, held-to-maturity, available-for-sale, or other liabilities. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and/or management’s intent. Management determines the classification of financial assets and financial liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition.

##### ***(i) Loans and receivables***

Loans and receivables are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost, using the effective interest method.

##### ***(ii) Held-for-trading***

Financial assets and financial liabilities that are purchased and incurred with the intention of generating income in the near term, are classified as held-for-trading. Financial instruments included in this category are initially recognized at fair value and transaction costs are taken directly to earnings along with gains and losses arising from changes in fair value.

# BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### 2. SIGNIFICANT ACCOUNTING POLICIES - continued

(iii) *Other liabilities*

Financial liabilities, including short-term debt and accounts payable and accrued liabilities, are classified as "other liabilities". Other liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

(iv) *Transaction costs*

Transaction costs with respect to instruments not classified as held-for-trading are recognized as an adjustment to the cost of the underlying instruments and are recognized and amortized using the effective interest method.

(v) *Comprehensive income*

Comprehensive income is composed of the Company's net income and other comprehensive income. Other comprehensive income includes any unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the net investment in self-sustaining foreign operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive income are disclosed in the Consolidated Statements of Comprehensive Loss.

(vi) *Derivatives and hedge accounting*

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase and sale. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Company does not currently apply hedge accounting or have derivative instruments.

The Company designated its financial instruments as follows:

<b>Financial instrument</b>	<b>Classification</b>	<b>Measurement</b>
Cash	Held-for-trading	Fair value
Other assets	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities, other liabilities and debt	Other liabilities	Amortized cost
Lease	Other liabilities	Amortized cost

# **BRC DiamondCore Ltd.**

(formerly BRC Diamond Corporation)

## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **2. SIGNIFICANT ACCOUNTING POLICIES - continued**

#### *Mining assets*

##### Exploration costs

Exploration costs are recorded in the statement of operations and deficit until such time as the Company has legal title to the mineral rights. Thereafter all exploration and evaluation expenditures are capitalized until such time as the mining property is capable of commercial production. It will then be subject to impairment tests when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount. The value of diamonds recovered from exploration activities is offset against exploration costs.

##### Mine development costs

Mine development costs are capitalized. Capitalized mine development costs include expenditure incurred to develop new mineral resources, to define further mineral resources and to expand the capacity of the mine. Amortization is first charged on new mining ventures from the date on which commercial production commences. Mine development costs will be amortized over the expected useful life of the mine. Day to day mining costs are expensed as incurred.

##### Land and mineral rights

Undeveloped properties and mineral rights, upon which the Company has not performed sufficient exploration work to determine whether sufficient mineralization exists, are carried at original cost.

Land is not depreciated.

Mineral rights are amortized over the expected life of the mine from the date on which commercial production commences. Where there is little likelihood of a mineral right being exploited, or the value of an exploitable mineral right has diminished below cost, a write down is effected.

##### Non-producing mineral properties

Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalized until such time as either economically recoverable reserves are established, the properties are sold or abandoned, or the value of the particular property is impaired. The excess of these costs over estimated recoveries is charged to operations. The ultimate recovery of these costs depends on the discovery and development of economic reserves or the sale of the mineral rights. The amounts shown for non-producing resource properties do not necessarily reflect present or future values.

In addition, the Company's exploration opportunities in the Democratic Republic of the Congo (the "DRC") may be subject to sovereign risks, including political and economic instability, government regulations relating to mining, military repression, civil disorder, currency fluctuations and inflation, all or any of which may impede the Company's activities in this country or may result in the impairment or loss of part or all of the Company's interest in the properties.

The exploration and development opportunities in South Africa must also be compliant with applicable laws regarding the participation of historically disadvantaged South Africans in order to register and retain mineral rights.

# **BRC DiamondCore Ltd.**

(formerly BRC Diamond Corporation)

## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **2. SIGNIFICANT ACCOUNTING POLICIES - continued**

#### *Capital assets*

Capital assets of the Company are recorded at cost. Depreciation of capital assets is recorded on a straight line basis over the following periods:

Vehicles	-	four years
Furniture and office equipment	-	two to seven years
Computer equipment	-	three years
Leasehold improvements	-	five years
Processing plant	-	hours worked / volumes processed
Exploration and mining assets	-	two to 15 years
Earthmoving equipment	-	hours worked

The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually.

#### *Goodwill*

Goodwill represents the excess of the price paid over the fair value attributed to the net assets, including tangible and identifiable intangible assets upon acquisition of a business. Goodwill resulting from the acquisition of a business is not amortized but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. The impairment test consists of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. Any impairment in the carrying amount of goodwill is charged to earnings. The Company has elected to perform its annual impairment test as of December 31st of each fiscal year.

The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value is based on one or more fair value measures including present value techniques of estimated future cash flows and a market approach for resources based on diamond carat estimates. In estimating the fair value of the reporting unit, the Company is also required to make a number of estimates, including estimates about future revenue, income taxes, net earnings, overhead costs, capital expenditure, and the cost of capital. Given the variability of the future-oriented financial information, a judgement balancing discount and growth rates enables management to opine whether or not the goodwill balance has been impaired. If the carrying amount of the reporting unit exceeds the fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in income. The Company has impaired the entire amount of goodwill that arose on the acquisition of Diamond Core (Note 3).

#### *Impairment of long-lived assets*

The Company reviews and evaluates the carrying value of its exploration and development properties for impairment when events or circumstances indicate that the carrying amounts of related assets or groups of assets may not be recoverable. If the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value. Future cash flows are estimated based on estimated future recoverable mine production, expected sales prices and considering current and historical commodity prices, price trends and related factors, production levels, cash costs of production and capital and reclamation costs, and the sustainable exploitation of the indicated ore body.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **2. SIGNIFICANT ACCOUNTING POLICIES - continued**

#### ***Capitalized interest***

Interest on borrowings related to the financing of major capital projects under construction is capitalized during the construction phase as part of the cost of the project.

#### ***Overburden removal costs***

The costs of removing overburden material to access mineral reserve deposits, referred to as "stripping costs" are accounted for as variable production costs to be included in the cost of inventory produced, unless the overburden removal activity can be shown to be a betterment of the mineral property, in which case these costs are capitalized. Betterment occurs when the overburden removal activity provides access to additional sources of mineral deposit reserves that will be produced in future periods which would not have otherwise been accessible in the absence of the stripping activity.

#### ***Asset retirement obligations***

The estimated fair value of an asset-retirement obligation is recognized as a liability in the period incurred. A corresponding amount is added to the carrying amount of the associated asset when incurred and depreciated over the asset's estimated useful life. The liability is accreted over time through charges to earnings to reflect changes in its present value. Actual expenditures incurred are charged against the accumulated obligation. The asset-retirement obligation is reviewed by management annually and revised for changes in future estimated costs and regulatory requirements.

#### ***Stock options***

The Company's stock option plan is referred to in Note 11(b). Stock-based compensation is recorded using the fair value method of accounting for stock options granted to directors, officers and employees whereby the weighted average fair value of options granted is recorded as compensation expense in the consolidated financial statements. Compensation expense on stock options granted is recognized and amortized over the vesting period, with the offset being credited to contributed surplus, which will transfer to share capital if the related options are converted. Compensation expense on stock options granted to non-employees is recorded as an expense in the period at the earlier of the completion of performance and the date the options are vested using the fair value method. Any consideration paid for shares purchased under this plan is credited to share capital.

#### ***Restricted cash***

Restricted cash to the value of \$308,014 is held by various financial institutions as security for guarantees the Company has provided to the Department of Minerals and Energy Affairs for the rehabilitation of land disturbed by mining and exploration and to Eskom, the South African electricity utility, in respect of electricity payment deposits.

#### ***Corporate transaction costs***

Corporate transaction costs incurred in connection with business combinations are recognized as an asset when the transaction is specifically identified and the completion of such transaction is considered to be more likely than not. Upon completion of the transaction, corporate transaction costs are included in the costs of the acquired business and allocated to the acquired net assets. Such corporate transaction costs are expensed when the transaction is abandoned.

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **2. SIGNIFICANT ACCOUNTING POLICIES - continued**

#### ***Income taxes***

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the substantively enacted income tax rates for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce future income tax assets to amounts expected to be realized.

#### ***Loss per share***

Basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding during the reporting period. Due to reported losses, diluted loss per share data is the same as basic loss per share as the assumed exercise of stock options and warrants are anti-dilutive (Note 11(d)).

#### ***Foreign currency translation***

These consolidated financial statements are presented in Canadian dollars. The Company's functional currency is the Canadian dollar.

Transactions of self-sustaining foreign operations are translated into Canadian dollars using the current-rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the balance sheet date while revenue and expense items (including depletion and amortization) are translated at the average rates of exchange prevailing during the year. Exchange gains and losses that result from the translation are deferred and disclosed as a component of "accumulated other comprehensive income (loss)". The operations in South Africa are considered self-sustaining and their functional currency is the South African rand.

Transactions in foreign currencies of integrated foreign operations are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange with the resulting gains or losses included in income. Non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the average rates of exchange, except depletion and amortization which are translated at the rates of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in income. The activities in the DRC are considered integrated.

Transactions denominated in a foreign currency are translated into Canadian dollars at the rate of exchange in effect at the time of such transactions. Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange at the balance sheet date. The resulting gains and losses are included in income.

#### ***Variable interest entities (VIEs)***

VIEs are consolidated by the Company when it is determined that it will, as the primary beneficiary, absorb the majority of the VIEs expected losses or expected residual returns. The Company currently does not have any interests in VIEs.

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **2. SIGNIFICANT ACCOUNTING POLICIES - continued**

#### *New accounting standards*

On January 1, 2008, the Company adopted the following CICA accounting standards which were effective for fiscal years beginning on or after October 1, 2007 and January 1, 2008. Adoption of these standards is on a prospective basis without retroactive restatement of prior periods.

#### a) General Standards of Financial Statement Presentation

CICA Handbook Section 1400, as amended, changed the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of the entity's ability to continue as a going concern and should take into account all information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern. The adoption of this standard had no impact on the Company's presentation of its financial position or consolidated results of operations as at December 31, 2008 and for the year then ended.

#### b) Inventories

CICA Handbook Section 3031, Inventories, replaces corresponding Section 3030 and established new standards for the measurement and disclosure of inventories. This new section requires inventories to be measured at the lower of cost and net realizable value, provides guidance on the determination of cost and requires the reversal of prior period write-downs when the net realizable value of impaired inventory subsequently recovers. The adoption of this section did not have any impact on the Company's consolidated financial statements.

#### c) Financial Instruments – Disclosure and Financial Instruments - Presentation

CICA Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation, enhance existing disclosure requirements and require entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and performance as well as the nature and the risks arising from financial instruments and non-financial derivatives. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of these standards did not have any impact on the disclosure, classification and measurement of the Company's financial statements, because the Company is not currently exposed to risk arising from financial instruments.

The new disclosures pursuant to these new Handbook Sections are included in Note 15 to the consolidated financial statements.

#### d) Capital Disclosures

CICA Handbook Section 1535, Capital Disclosures, establishes disclosure requirements about an entity's capital objectives, policies and process for managing capital as well as compliance with any externally imposed capital requirements.

The new disclosures pursuant to this new Handbook Section are included in Note 14 to the consolidated financial statements.

# **BRC DiamondCore Ltd.**

(formerly BRC Diamond Corporation)

## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **2. SIGNIFICANT ACCOUNTING POLICIES - continued**

The following accounting pronouncements have not yet been adopted:

a) Goodwill and Intangibles

In February 2008, the CICA issued accounting standard Section 3064, Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008.

The Company is currently evaluating, and has not yet determined, the impact of the adoption of this standard, if any, on its consolidated financial statements.

b) International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2, Inventories, and IAS 38, Intangible assets, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company is currently evaluating the impact of the adoption of IFRS on its consolidated financial statements. Diamond Core had successfully adopted IFRS prior to the acquisition thereof by the Company and currently reporting its statutory returns in South Africa in terms of IFRS. This will facilitate the adoption of IFRS. The adoption of IFRS will make it possible for the Company to re-assess the fair values of assets and liabilities on their balance sheet under IFRS 1, which could impact the balance sheet significantly if the impairment imposed needs to be reassessed.

c) Determining Whether a Contract is Routinely Denominated in a Single Currency - EIC 169

In January 2008 the CICA issued Section 3855 - Financial Instruments – Recognition and Measurement, paragraph 3855.37, requires an embedded derivative to be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. An exception is made in paragraph 3855.A34(d) for an embedded foreign currency derivative in a host contract that is not a financial instrument (such as a contract for the purchase or sale of a non-financial item where the price is denominated in a foreign currency) where the embedded derivative is not leveraged, does not contain an option feature, and requires payments denominated in "the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (such as the US dollar for crude oil transactions)." EIC 169 supplements Section 3855 and provides guidance on how to define or apply the term "routinely denominated in commercial transactions around the world". The EIC is in effect for interim filings as of March 31, 2008.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

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### **2. SIGNIFICANT ACCOUNTING POLICIES - continued**

#### d) Business Combinations/Consolidated Financial Statements/Non-Controlling Interests

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current sections 1581, "Business Combinations" and 1600 "Consolidated Financial Statements". These Sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these Sections before January 1, 2011, it will disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP with IFRS. The Company is currently evaluating the impact of the adoption of these changes on its consolidated financial statements.

### **3. ACQUISITION OF DIAMOND CORE RESOURCES LIMITED**

In July 2007, the Company and Diamond Core, a South African diamond exploration company listed on the JSE Limited, announced that they had entered into an agreement to merge the two companies by way of a court-sanctioned scheme of arrangement (the "scheme") under South African corporate law, pursuant to which the Company would acquire all of the outstanding shares of Diamond Core in exchange for the issuance of BRC DiamondCore common shares. Under the scheme, each Diamond Core shareholder was entitled to receive one BRC DiamondCore share for every 24.5 Diamond Core ordinary shares held. On January 14, 2008, Diamond Core shareholder approval was obtained, and court approval was obtained on January 22, 2008. On February 11, 2008, the Company acquired all of the outstanding Diamond Core shares and, as the consideration for this acquisition, issued BRC DiamondCore shares to the Diamond Core shareholders in the agreed ratio, resulting in the issuance by the Company of a total of 12,089,678 common shares. In connection with this acquisition, the Company changed its name from BRC Diamond Corporation to BRC DiamondCore Ltd. and its shares were listed on the Toronto Stock Exchange and the JSE Limited in Johannesburg, South Africa.

Previously in July 2005, Diamond Core acquired all of the outstanding shares of Samadi Resources SA (Pty) Ltd ("Samadi"). As consideration for this acquisition, Diamond Core issued ordinary shares to Samadi's shareholders. The terms of the acquisition agreement (the "Samadi Agreement") entered into by Diamond Core with the Samadi shareholders with respect to this acquisition provided for the potential issuance of additional Diamond Core ordinary shares should certain operating profits be reached from certain of the projects acquired by Diamond Core pursuant to the acquisition.

In anticipation of the implementation of the scheme, the Company and Diamond Core entered into an agreement (the "Samadi Amending Agreement") with the said Samadi shareholders pursuant to which the Samadi shareholders would, if the relevant profit thresholds are met, be entitled to receive BRC DiamondCore common shares in substitution for the Diamond Core ordinary shares, with the number of BRC DiamondCore shares issuable to such shareholders adjusted to reflect the exchange ratio applicable under the terms of the scheme. Accordingly, the number of BRC DiamondCore shares issuable to the said Samadi shareholders under the Samadi Amending Agreement, in the same circumstances as contemplated in the Samadi Agreement, is a maximum of 1,434,502 BRC DiamondCore shares. Since the outcome and amount of the contingency cannot be determined without reasonable doubt, no recognition has been made for this in these financial statements.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

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### **3. ACQUISITION OF DIAMOND CORE RESOURCES LIMITED - continued**

Also in connection with the acquisition by the Company of all of the outstanding shares of Diamond Core, 15,133,190 stock options that had been issued to employees of Diamond Core pursuant to The Diamond Core Resources Share Trust Deed to acquire 15,133,190 ordinary shares in Diamond Core (the "Old Options") were substituted with new stock options of BRC DiamondCore (the "Replacement Options"), so as to allow holders of Old Options to acquire the number of BRC DiamondCore common shares that is calculated by dividing the number of ordinary shares of Diamond Core that would otherwise have been issuable upon the exercise of the Old Options by 24.5, rounded up to the nearest whole number of BRC DiamondCore shares, with the exercise price of such Replacement Options being adjusted to the number that is equal to the exercise price of the Old Options (denominated in South African rand) multiplied by 24.5. A total of 617,710 Replacement Options were issued by the Company.

As at December 31, 2007, the Company had deferred transaction costs of \$2,200,165 in relation to the Diamond Core acquisition. An additional \$206,859 expenses was incurred in 2008 and are included in the purchase price equation for the year ended December 31, 2008.

#### ***Allocation of Purchase Price***

Based on BRC DiamondCore's average closing price of \$7.40 per share, calculated with reference to the share price around July 5, 2007 (date of announcement), BRC DiamondCore issued 12,089,678 common shares valued at \$89,463,617 to Diamond Core shareholders holding 296,218,483 Diamond Core ordinary shares outstanding on the same date.

The acquisition has been accounted for using the purchase method of accounting with BRC DiamondCore being identified as the acquirer and Diamond Core as the acquiree. In accordance with the purchase method of accounting, assets and liabilities acquired from Diamond Core are measured at their individual fair values on the date of the acquisition and the difference between these fair values of net assets acquired and the purchase price is recorded in the consolidated balance sheet as goodwill.

The allocation of the purchase price to the assets and liabilities acquired as presented in these consolidated financial statements was finalized in the fourth quarter of 2008. The revisions to the results previously reported are not material. Venmyn Rand (Proprietary) Limited ("Venmyn") performed the fair values of certain mineral properties based upon the exchange rates, inflation levels, diamond prices, expected resource levels, mine life and extraction costs prevailing at that date.

# BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

## Notes to the Consolidated Financial Statements

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### 3. ACQUISITION OF DIAMOND CORE RESOURCES LIMITED - continued

The following table summarizes the components of the total purchase price and net assets acquired. It reflects fair-value adjustments for identifiable assets and liabilities acquired.

	<b>\$'000</b>
Issuance of 12,089,678 BRC DiamondCore common shares	89,464
Issuance of Replacement Options	2,477
Transaction costs	2,407
<b>Purchase price</b>	<b>94,348</b>

The allocation of the purchase price to the net assets acquired is as follows:

Cash	2,270
Trade and other receivables	1,253
Inventories	192
Mineral rights	14,188
Property, plant and equipment	17,051
Deferred exploration costs	8,891
Trade and other payables	(2,912)
Taxation	(126)
Asset retirement obligation	(1,017)
Net assets acquired	39,790
Goodwill	54,558
<b>Fair value of net assets acquired</b>	<b>\$94,348</b>

The consideration and transaction costs of \$94,347,641 exceeded the carrying value of the net assets acquired by \$54,558,329 which has been recorded as goodwill.

At December 31, 2008, the fair value of the South African reporting unit, based on undiscounted projected cash flows, was less than the carrying value. As a result, the Company recognized an impairment of the full amount of the Diamond Core goodwill of \$54,558,329. The decrease in the fair value was primarily due to the decline in price per carat and general economic conditions.

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## Notes to the Consolidated Financial Statements

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### 4. INVENTORY

	As at December 31, 2008	As at December 31, 2007
Consumables	\$ 121,987	\$ -
	<b>\$ 121,987</b>	<b>\$ -</b>

### 5. RELATED PARTY TRANSACTIONS

	As at December 31, 2008	As at December 31, 2007
<b>Balances payable</b>		
Macleod Dixon LLP	\$ 744,641	\$ 269,232
Scallan Project Facilitation (Pty) Ltd	13,200	29,000
Sterling Portfolio Securities <sup>(g)</sup>	11,000	-
	<b>\$ 768,841</b>	<b>\$ 289,232</b>
	<b>For the year ended December 31, 2008</b>	<b>For the year ended December 31, 2007</b>
<b>Transactions</b>		
Macleod Dixon LLP <sup>(a)</sup>	\$ 299,954	\$ 560,794
Banro Corporation <sup>(b)</sup>	-	419,849
SFW Village <sup>(c)</sup>	99,996	79,997
AT Kondrat <sup>(d)</sup>	99,999	33,333
DK Madilo <sup>(e)</sup>	48,000	16,000
Scallan Project Facilitation (Pty) Ltd <sup>(f)</sup>	58,091	-
Sterling Portfolio Securities Inc. <sup>(g)</sup>	11,000	-
	<b>\$ 617,040</b>	<b>\$ 1,109,973</b>

- a) During the year ended December 31, 2008, legal fees and related costs of \$299,954 (December 31, 2007 - \$665,753) incurred in connection with general corporate matters as well as the Diamond Core acquisition (see Note 3) were billed by a law firm of which one partner is a director and officer of the Company.
- b) Banro Corporation ("Banro") owns 3,744,032 common shares representing a 14.35% (December 31, 2007 - 27.43%) equity stake in the Company. It is engaged in the acquisition and exploration of gold properties in the DRC. During the year ended December 31, 2008, the Company incurred \$11,000 in office rental expenses for contribution to expenses for office rental (December 31, 2007 - \$419,849).
- c) Consulting fees in respect of services to the Company. Mr. Village is a director of the Company and has been an officer of the Company since February 2008.
- d) Consulting fees are paid to Mr. Kondrat who is a non-executive director of the Company.
- e) Consulting fees paid to Mr. Madilo, who is currently an officer of the Company and was a director of the Company until February 2008.
- f) Consulting fees in respect of services to the Company prior to Mr. Scallan entering into an employment contract with the Company. Mr. Scallan is now an officer and a director of the Company and is the sole shareholder of Scallan Project Facilitation (Pty) Ltd.
- g) During 2008, Sterling Portfolio Securities Inc. advanced a short term loan to the Company. The officer and director of Sterling Portfolio Securities Inc. is a non-executive director of the Company.

# BRC DiamondCore Ltd.

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### 5. RELATED PARTY TRANSACTIONS - continued

All amounts due to related parties are included in the balance sheet in accounts payable and accrued liabilities. These amounts are unsecured, non-interest bearing and due on demand. These transactions are in the normal course of operations and are measured at the exchange value.

### 6. DEBT

The Company has a loan facility established with a Canadian financial institution which bears interest at prime rate plus 1% per annum. The effective interest rate for the twelve months ended December 31, 2008 was 5.75% (December 31, 2007 – 7.25%). At December 31, 2008, the balance of this short term debt was \$6,172,317 (December 31, 2007 - \$3,022,899), including accrued interest of \$307,872 (December 31, 2007 - \$22,899). This loan facility has been utilized to fund exploration activities in the DRC and all interest of \$307,872 was capitalized to exploration cost. This loan facility, which is still in place, is guaranteed by Banro Corporation (“Banro”), a significant shareholder of the Company. The Company has undertaken to release Banro from this guarantee as soon as possible. The Company is in breach of an agreement between Banro and the Company to have repaid the loan to the institution by July 28, 2008. Banro has not exercised its rights in terms of the Company’s undertaking to repay the loan to the institution.

### 7. LEASE LIABILITIES

	As at December 31, 2008	As at December 31, 2007
Total lease liability	\$ 649,396	\$ -
Less: Current portion included in accounts payable and accrued liabilities	(149,912)	-
	<u>\$ 499,484</u>	<u>\$ -</u>

This liability is secured by a finance lease over vehicles with a carrying amount of \$61,035 and earthmoving equipment with a carrying amount of \$466,377. The lease is payable in monthly installments that varies and the final date of repayment is on October 1, 2013 and October 1, 2012. The applicable interest rate is 15.86%, which varies with the South African prime rate, on the South African rand denominated obligation. The monthly installments in dollar terms will decrease with any lowering of the South African interest rates and any weakening of the South African currency.

#### Payments

2009	\$ 149,912
2010	135,298
2011	142,303
2012	209,887
2013	11,996
	<u>\$ 649,396</u>

# BRC DiamondCore Ltd.

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## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### 8. ASSET RETIREMENT OBLIGATIONS

The provision for the site closure and reclamation costs relate to the Silverstreams, Paardeberg East and De Kalk projects in South Africa.

	As at <b>December 31, 2008</b>	As at December 31, 2007
Balance at beginning of period	\$ -	\$ -
Changes during the period	<b>2,131,648</b>	-
Reclamation obligation recognized	-	-
Accretion expense	-	-
Foreign exchange revaluation	-	-
Balance at end of period	<b>\$ 2,131,648</b>	\$ -

The estimated amount of reclamation costs at December 31, 2008, is \$615,036 for the Paardeberg East project, \$941,096 for the Silverstreams project and \$15,729 for the De Kalk project. The estimated amount for the dismantling of the processing plants are at Paardeberg East is \$249,241 and at Silverstreams is \$310,546.

The Company had cash reclamation deposits totaling \$235,504 (December 31, 2007 - \$nil) as determined by the regulatory authorities in South Africa, as well as cash guarantees with Eskom (provider of electricity in South Africa) totaling \$72,510. The deposits are invested in interest bearing money market linked investments at rates ranging from 10.5% to 11%.

The above provision is for the future environmental obligations including the rehabilitation of land disturbed by prospecting and mining operations and the mine closure. The environmental rehabilitation obligation was calculated by taking into account the Company's environmental management plans and current technology. The provision was increased based on an independent study performed. The provision was calculated according to the Department of Mineral and Energy guidelines and takes into account reductions through the application of innovative rehabilitation methods.

In view of the uncertainties concerning environmental remediation, the ultimate cost of asset retirement obligations could differ materially from the estimated amounts provided. The estimate of the total liability for asset retirement obligation costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognised prospectively as a change in accounting estimate, when applicable.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

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### **9. MINERAL PROPERTIES**

With all the data available from the DRC exploration activities of 2007 and 2008, BRC was able to adjust its permit portfolio in order to focus on the most prospective areas. For that reason, two projects in Northern DRC, Zongo and Businga, and four projects in the southern DRC, Ilunga, Vangu Phambu, Lubao and most of Candore, were closed and the exploration permits relinquished.

As at December 31, 2008, the Company's South African subsidiaries held title to two mining rights and 11 prospecting rights in the Northern Cape and Free State Provinces of South Africa. The projects include Silverstreams and Paardeberg. Silverstreams is one of the Company's most advanced exploration projects located on the northern bank of the Orange River in the Northern Cape province. Paardeberg East contains a number of known kimberlite bodies. Other South African alluvial opportunities include Uitdraai, De Kalk, the Sanddrift and Muishoek projects along the existing or historical courses of the Orange River. Sanddrift and Muishoek are immediately adjacent to the Silverstreams project, with the Koa Valley project in proximity to the town of Pofadder in the Northern Cape.

Since 2006, Diamond Core had entered into transactions with Black Economic Empowerment ("BEE") partners in order to satisfy the requirements of the transformed mining and minerals industry legislation of South Africa, specifically in compliance with the Broad Based Socio-Economic Empowerment Charter of the Mineral and Petroleum Resources Development Act (Act 28 of 2002; MPRDA). Under the MPRDA, mining companies are obliged to, among other requirements, have negotiated a BEE equity ownership agreement through which historically disadvantaged South Africans (HDSAs) own 26% of the issued equity in the operational assets by 2014. In the case of previously state held rights, HDSA ownership of 51% is required before granting of the right to a private company.

Through its subsidiaries, the Company has BEE transactions with Selang Resources (Pty) Limited ("Selang") and previously had a BEE transaction with Sefalana Mineral Resources (Pty) Limited ("Sefalana"). Selang acquired 50% of the issued share capital of Samadi Gemsbok Resources (Pty) Limited (Uitdraai Portion 9), Diamond Core Alluvial Projects (Pty) Limited (Muishoek project) and Sandrif Exploration (Pty) Limited (option over Sanddrift project).

Sefalana was to acquire 50% of the issued ordinary share capital of each of the subsidiaries of Samadi Resources (SA) (Pty) Limited (Samadi Resources; Silverstreams, Koa River Valley, De Kalk and Uitdraai RE of Portion 1 projects) other than Samadi Gemsbok Resources (Pty) Limited.

Sefalana subsequently failed to fulfill certain conditions precedent of the agreements and was obliged to offer the said shares to Samadi Resources. Samadi Resources then held the entire issued ordinary share capital of the subsidiaries. Sefalana is disputing this. Diamond Core has entered into correspondence to relieve Sefalana as Samadi Resources' BEE partner. In 2008, Sefalana was replaced by Leswika Resources (Pty) Limited ("Leswika"). Leswika holds 15% of the issued share capital of the subsidiaries of Samadi Resources (Silverstreams, Koa River Valley, De Kalk and Uitdraai RE of Portion 1 projects) other than Samadi Gemsbok Resources (Pty) Limited. The agreement further allows Leswika to attain an additional 11% of the shareholding at fair market value.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

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### **9. MINERAL PROPERTIES - continued**

The Company will require a BEE partner for the Paardeberg East project prior to the Company's old order mining license over the project expiring in the second quarter of 2009. Although the Company is not currently required to have concluded any agreement with a BEE partner in relation to this project, it will be required to do so at the time that it lodges this old order mining right for conversion with the Department of Minerals and Energy, namely, by April 30, 2009. Such application would need to include a social and labour plan that is compliant with the broad-based empowerment objectives of the MPRDA and the Mining Charter (which sets the framework, targets and timetable for effecting the participation of historically disadvantaged South Africans in the mining industry).

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### 9. MINERAL PROPERTIES - continued

The Company has incurred deferred exploration expenditures and mineral property costs, (net of write offs of \$36,608,544 and net proceeds on diamond sales of \$8,510,635 and diamond inventory on hand of \$35,461) in the DRC and in South Africa as at December 31, 2008 as follows:

#### Group

	Cumulative from inception in 1990 to December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2008
<b>Mineral property costs</b>			
Canada	\$ -	\$ (16,297)	\$ -
DRC	2,713	-	-
South Africa	3,511,886	-	3,511,886
	<u>3,514,599</u>	<u>(16,297)</u>	<u>3,511,886</u>
<b>Deferred exploration expenditures</b>			
DRC	5,560,540	6,745,394	(8,625,241)
South Africa	-	-	-
	<u>5,560,540</u>	<u>6,745,394</u>	<u>(8,625,241)</u>
<b>Total mineral properties and deferred exploration expenditures</b>	<b>\$ 9,075,139</b>	<b>\$ 6,729,097</b>	<b>\$ (5,113,355)</b>

#### Fenton/Menary project (Canada)

	Cumulative from inception in 1990 to December 31, 2008	Year ended December 31, 2008	Year ended December 31, 2007
<b>Mineral property costs</b>			
Claims and staking	\$ 66,306	\$ -	\$ -
Write-off	(66,306)	-	(16,297)
<b>Total mineral property costs</b>	<b>-</b>	<b>-</b>	<b>(16,297)</b>
<b>Deferred exploration expenditures</b>			
Field camp expenses	88,828	-	-
Surveying	60,515	-	-
Geochemistry	5,554	-	-
Geology – contract geologists	47,378	-	-
Drilling	232,356	-	-
Professional fees	10,525	-	-
Write-off	(445,156)	-	-
<b>Total deferred exploration expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total mineral properties and deferred exploration expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (16,297)</b>

# BRC DiamondCore Ltd.

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### 9. MINERAL PROPERTIES - continued

#### DRC

Mineral properties in the DRC (which comprise the following projects: Lubao, Kwango River, Tshikapa (Kwango Mines), Tshikapa (Candore), Tshikapa (Acacia), Zongo, Businga, Bomili, Ilunga, King's mines, BCM, Caspian and Coexo).

	Cumulative from inception in 1990 to December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2008
<b>Mineral property costs</b>			
Claims and staking	\$ 2,713	\$ -	\$ -
Total mineral property costs	2,713	-	-
<b>Deferred exploration expenditures</b>			
Administrative and office support	4,546,009	1,777,610	1,718,882
Depreciation	541,629	137,850	259,011
Drilling	486,357	179,348	90,365
Field camp expenses	2,822,468	419,120	1,396,864
Geochemistry	329,145	230,306	-
Geology – contract geologists	1,600,765	398,779	-
Geophysics	2,369,677	688,025	267,775
Option fees	308,443	120,769	-
Permits and surface taxes	1,848,667	586,245	522,905
Professional fees	613,934	33,089	461,605
Remote sensing and surveying	46,729	28,129	-
Stock-based compensation	1,988,637	1,043,233	945,404
Transport cost and helicopter	3,223,874	1,102,891	877,742
Unrealised foreign exchange difference	1,622,685	-	1,622,685
Write off	(16,788,479)	-	(16,788,479)
Total deferred exploration expenditures	5,560,540	6,745,394	(8,625,241)
<b>Total mineral properties and deferred exploration expenditures</b>	\$ 5,563,253	\$ 6,745,394	\$ (8,625,241)

# BRC DiamondCore Ltd.

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## Notes to the Consolidated Financial Statements

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### 9. MINERAL PROPERTIES - continued

#### *South Africa*

	Cumulative from inception in 1990 to December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2008
<b>Mineral property costs</b>			
Acquisition of Diamond Core	\$ 13,152,475	\$ -	\$ 13,152,475
Write off	(9,640,589)	-	(9,640,589)
Total mineral property costs	<u>3,511,886</u>	-	<u>3,511,886</u>
<b>Deferred exploration expenditures</b>			
Acquisition of Diamond Core	6,505,442	-	6,505,442
Administrative and office support	2,002,163	-	2,002,163
Depreciation	2,345,289	-	2,345,289
Field camp expenses	6,537,896	-	6,537,896
Geology – contract geologists	99,592	-	99,592
Geophysics	26,285	-	26,285
Insurance	112,379	-	112,379
Inventory losses	(20,508)	-	(20,508)
Permits and surface taxes	5,262	-	5,262
Professional fees	51,159	-	51,159
Rehabilitation	1,669,526	-	1,669,526
Security	1,771,455	-	1,771,455
Surveying	66,383	-	66,383
Transport cost	148,666	-	148,666
Unrealised foreign exchange difference	(2,666,340)	-	(2,666,340)
	<u>18,654,649</u>	-	<u>18,654,649</u>
Net proceeds on diamond sales	(8,475,174)	-	(8,475,174)
Write off	(10,179,475)	-	(10,179,475)
<b>Total mineral properties and deferred exploration expenditures</b>	<u>\$ 3,511,886</u>	<u>\$ -</u>	<u>\$ 3,511,886</u>

The Company recognized asset impairments totalling \$36,608,543 consisting of impairments to mineral properties (\$9,640,589) and deferred exploration costs (\$26,967,954) where the carrying value of certain assets exceeded their estimated fair value.

# BRC DiamondCore Ltd.

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## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

### 10. CAPITAL ASSETS

	As at December 31, 2008			
	Cost	Accumulated Depreciation	Impairment	Net Book Value
Computer equipment	\$ 293,707	\$ 102,546	\$ -	\$ 191,161
Earthmoving equipment	5,753,329	1,397,764	644,712	3,710,853
Exploration and mining assets	457,912	195,604	35,378	226,930
Furniture and Office equipment	100,052	16,935	9,715	73,402
Land and buildings	539,260	42,761	-	496,499
Leasehold improvements	226,592	225,639	-	953
Processing plant	11,180,482	1,247,745	6,105,476	3,827,261
Vehicles	711,451	390,490	1,065	319,896
	<u>\$ 19,262,785</u>	<u>\$ 3,619,484</u>	<u>\$ 6,796,346</u>	<u>\$ 8,846,955</u>

	As at December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ -	\$ -	\$ -
Earthmoving equipment	-	-	-
Exploration and mining assets	318,080	82,616	235,464
Furniture and Office equipment	19,439	15,495	3,944
Land and buildings	-	-	-
Leasehold improvements	225,121	225,121	-
Processing plant	-	-	-
Vehicles	538,538	184,279	354,259
	<u>\$ 1,101,178</u>	<u>\$ 507,511</u>	<u>\$ 593,667</u>

During 2008, \$2,604,300 of depreciation was included in mineral properties and deferred exploration expenditures (see Note 9) (2007 - \$137,850).

The Company recognized asset impairments totalling \$6,796,346 related to capital assets where the carrying value of certain assets exceeded their estimated fair value.

# BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### 11. CAPITAL STOCK

#### a) *Share capital*

	Number of shares		Amounts
Balance, December 31, 2006	12,424,032	\$	10,212,954
Shares issued for cash	1,000,000		4,970,541
Exercise of warrants	114,000		510,720
Exercise of options	113,600		132,309
Balance, December 31, 2007	13,651,632		15,826,524
Shares issued for the acquisition of Diamond Core	12,089,678		89,463,617
Shares issued for cash	350,000		525,000
<b>Balance, December 31, 2008</b>	<b>26,091,310</b>	<b>\$</b>	<b>105,815,141</b>

On December 31, 2008, the authorized share capital of the Company is comprised of an unlimited number of common shares.

On February 11, 2008, BRC DiamondCore acquired all of the outstanding shares of Diamond Core on the basis of 1 BRC DiamondCore share for every 24.5 Diamond Core shares resulting in the issuance by the Company of a total of 12,089,678 common shares. This acquisition was effected by way of a scheme of arrangement under the laws of the Republic of South Africa. See note 3.

In July 2008, the Company completed a non-brokered private placement of 350,000 common shares of the Company at a price of \$1.50 per share resulting in aggregate gross proceeds of \$525,000.

#### b) *Stock option plan*

The Company has a stock option plan under which non-transferable options to purchase common shares of the Company may be granted by the Board of Directors to any director, officer, employee or consultant of the Company or any subsidiary of the Company. This stock option plan contains provisions providing that the term of an option may not be longer than five years and the exercise price of an option shall not be lower than the last closing price of the Company's shares on the TSX prior to the date the stock option is granted. Unless the Board at any time makes a specific determination otherwise, a stock option and all rights to purchase Company shares pursuant thereto shall expire and terminate immediately upon the optionee who holds such stock option ceasing to be at least one of a director, officer or employee of or consultant to the Company or a subsidiary of the Company, as the case may be. One-quarter (1/4) of the stock options granted pursuant to the stock option plan vest immediately on their date of grant and another one-quarter of such stock options vest on each of the 6-month, 12-month and 18-month anniversaries of the grant date.

As at December 31, 2008, the Company had outstanding under the stock option plan stock options to acquire 3,876,400 (December 31, 2007 - 1,526,400) common shares of the Company at a weighted-average price of \$2.16 (December 31, 2007 - \$3.54) per share.

# BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

### 11. CAPITAL STOCK - continued

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

Date of Grant	Number outstanding at 12/31/2007	Options granted during the year	Options Exercised, Expired or Forfeited	Number outstanding at 12/31/08	Options Exercisable at 12/31/08	Exercise price	Fair value date of grant	Expiry Date
11/19/03	70,000	-	70,000	-	-	\$ 0.50	\$ 0.42	11/19/08
04/14/04	210,000	-	-	210,000	210,000	\$ 1.50	\$ 1.24	04/14/09
10/06/04	50,000	-	-	50,000	50,000	\$ 2.00	\$ 1.73	10/06/09
03/04/05	16,400	-	-	16,400	16,400	\$ 2.10	\$ 1.78	03/04/10
03/18/05	225,000	-	-	225,000	225,000	\$ 2.50	\$ 1.76	03/18/10
04/29/05	225,000	-	-	225,000	225,000	\$ 2.50	\$ 2.14	04/29/10
06/29/06	200,000	-	-	200,000	200,000	\$ 3.75	\$ 2.16	06/29/11
04/09/07	300,000	-	-	300,000	300,000	\$ 5.50	\$ 3.25	04/09/12
08/03/07	230,000	-	-	230,000	172,500	\$ 8.00	\$ 2.85	08/03/12
08/28/08	-	2,420,000	-	2,420,000	605,000	\$ 1.05	\$ 0.77	08/28/13
	1,526,400	2,420,000	70,000	3,876,400	2,003,900			

During 2008, the Company recognized in the statement of operations as stock-based compensation expense \$611,200 (2007 - \$nil) representing the fair value of stock options previously granted to employees, directors and officers under the Company's stock option plan. An amount of \$1,073,250 related to stock options were issued to employees and officers of the Company and \$16,000 related to stock options issued to a consultant of the Company's subsidiary in the DRC was capitalized as deferred exploration expenditures. These amounts were credited accordingly to contributed surplus in the balance sheet.

The Black-Scholes option-pricing model was used to estimate the fair values of all stock options granted based on the following factors:

- (i) risk-free interest rate: 3.075% (2007 - 4.11% to 4.53%)
- (ii) expected volatility: 95% (2007 - 62%)
- (iii) expected life: 5 years (2007 - 5 years)
- (iv) expected dividends: \$Nil (2007 - \$Nil)

# BRC DiamondCore Ltd.

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## Notes to the Consolidated Financial Statements

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### 11. CAPITAL STOCK - continued

#### c) Replacement Options

In connection with the acquisition by the Company of all of the outstanding shares of Diamond Core (see note 3), 15,133,190 stock options that had been issued to employees of Diamond Core pursuant to The Diamond Core Resources Share Trust Deed to acquire 15,133,190 ordinary shares in Diamond Core (the "Old Options") were substituted with new stock options of BRC DiamondCore (the "Replacement Options"), so as to allow holders of Old Options to acquire the number of BRC DiamondCore common shares that is calculated by dividing the number of ordinary shares of Diamond Core that would otherwise have been issuable upon the exercise of the Old Options by 24.5, rounded up to the nearest whole number of BRC DiamondCore shares, with the exercise price of such Replacement Options being adjusted to the number that is equal to the exercise price of the Old Options (denominated in South African rand) multiplied by 24.5. A total of 617,710 Replacement Options were issued by the Company. At December 31, 2008, 340,885 of these options had been cancelled.

#### d) Loss per share

The loss per share figures for 2008 and 2007 are calculated using the weighted average number of shares outstanding during the respective accounting periods amounting to 24,546,305 and 13,243,967 common shares, respectively. The calculations of basic and diluted loss per share amounts are identical. All common share options and warrants were excluded from the calculation of diluted loss per share as their effect would have been anti-dilutive.

#### e) Contributed Surplus

	Year ended December 31, 2008	Year ended December 31, 2007
Balance, beginning of the year	\$ 2,757,191	\$ 1,552,807
Options granted	1,700,450	1,263,134
Acquisition of Diamond Core grant	2,477,000	-
Options forfeited	-	(58,750)
Balance, end of the year	\$ 6,934,641	\$ 2,757,191

#### f) Accumulated other comprehensive income

	Year ended December 31, 2008	Year ended December 31, 2007
Balance, beginning of the year	\$ -	\$ -
Adjustment for cumulative unrealized gain (loss) on available-for-sale investment on January 1, 2007	-	(13,950)
Realized gain on available-for-sale investment	-	13,950
Unrealized foreign currency loss on self sustaining foreign operation in South Africa	(2,370,104)	-
Balance, end of the year	\$ (2,370,104)	\$ -

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## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

### 12. INCOME TAXES

The Company uses the asset and liability method to determine future income taxes. Under this method, future tax assets and liabilities are determined based on temporary differences between the carrying amount and the tax bases of assets and liabilities, and measured using the tax rates substantively enacted at the balance sheet date.

The provision for income taxes is at an effective tax rate which differs from the basic corporate tax rate for the following reasons:

Year ended December 31,	2008	2007
Combined basic Canadian federal and Provincial income tax rates	33.5%	36.12%
Recovery of income taxes		
Based on above rates		\$ (662,040)
Increase resulting from:	\$	
Foreign rate differential	2,291,000	
Difference in future tax rates	(34,505,552)	202,035
Stock-options expense	565,253	79,428
Write off of goodwill	18,277,040	-
Other Non Deductible expenses	398,156	-
Impairment of assets	12,489,138	-
Unrecognized benefit of losses	484,965	380,577
	\$ -	\$ -

The following information summarizes the principal temporary differences, unused tax losses, and related future tax effect:

	2008	2007
Future tax assets		
Non-capital losses	\$ 10,792,789	\$ 1,178,785
Rehabilitation provision	596,861	
Mineral properties	7,051,793	148,324
Net capital losses	100,263	100,263
Other expenses and financing costs	159,201	125,882
Capital assets	1,968,262	32,642
Gross future tax asset	20,669,169	1,585,896
Future tax liability-investment	-	-
Net future tax asset before valuation allowance	20,669,169	1,585,896
Valuation allowance		(1,585,896)
Net future tax asset	\$ -	\$ -

# **BRC DiamondCore Ltd.**

(formerly BRC Diamond Corporation)

## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **12. INCOME TAXES - continued**

The Company has not recognized the benefit of these losses in the financial statements. The Company concluded that the criteria of more likely than not that the benefits of the future income tax assets would be realized prior to their expiration had not been met.

As at December 31, 2008, the Company has available non-capital losses of approximately \$33,294,028 that may be carried forward to apply against future South African taxable income for tax purposes, which will not expire. The Company also has available at December 31, 2008, Canadian non-capital losses of approximately \$5,071,000. If not utilized, these losses will expire as follows:

2009	\$	193,000
2010		397,000
2011		355,000
2015		615,000
2026		480,000
2027		1,818,000
2028		1,213,000
	\$	5,071,000

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### **13. COMMITMENTS, CONTINGENCIES AND GUARANTEES**

The Company is committed to the payment of the surface fees and taxes referred to in Note 8. For 2009, these fees and taxes are estimated to be approximately US\$120,000 compared to US\$520,000 incurred in 2008. The surface fees and taxes are required to be paid annually under the DRC Mining Code in order to keep PRs in good standing.

In addition, as at December 31, 2008, the Company had a bank guarantee of US\$4,373 (2007 - \$4,698) with respect to expenses related to a mitigation and rehabilitation plan required from holders of PRs under the DRC Mining Code.

The Company is in the process of exercising an option agreement to secure an equity interest in prospective ground currently held under option. The Company expects to pay US\$350,000 as an option exercise fee.

In 2006, Samadi Resources, a 100% subsidiary of Diamond Core, entered into a transaction with Sefalana ("Sefalana transaction"). In terms of the Sefalana transaction, Sefalana acquired 50% of the issued ordinary share capital and loan accounts of the Samadi subsidiaries and was, pursuant to the Sefalana preference share agreement and subject to the fulfilment of certain conditions precedent, to subscribe for preference shares in the capital of the Samadi subsidiaries. Certain of the conditions precedent were not timeously fulfilled. Accordingly, Sefalana was in terms of the Sefalana shareholders agreement deemed to have offered its ordinary shares in the Samadi subsidiaries to Samadi Resources which was deemed to have accepted such offer. As such, Samadi Resources currently holds the entire issued ordinary share capital of the Samadi subsidiaries. Sefalana is disputing Samadi Resources' position. The Company has entered into correspondence with the Department of Minerals and Energy regarding the exit of Sefalana as Samadi Resources' BEE partner.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **13. COMMITMENTS, CONTINGENCIES AND GUARANTEES - continued**

The Company has entered into surface use agreements in respect of prospecting operations conducted. The terms of the surface use agreements typically include a distinction between prospecting and mining activities and provide for an appropriate notice period. The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

In addition to the above matters, the Company and its subsidiaries are also subject to routine legal proceedings and tax audits. The Company does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated losses, cash flow or financial position.

#### ***Labour disputes***

At year end the Company was in dispute with two of its previous directors. One of those individuals applied for a summary judgment in the High Court; the application was dismissed and the Company was granted leave to defend his claim. The matter will now proceed in the High Court on an opposed basis. The other individual has referred two disputes to the CCMA in Johannesburg and an action to the High Court in that same jurisdiction. He elected to withdraw an application for summary judgment.

There is a dispute with an engineering contractor, over the design and installation of the Paardeberg diamond recovery plant. Pleadings in the matter have closed in relation to the contractor's claim of \$158,613 and the Company's counter claim of \$368,363. A trial date has been set for May 19, 2010.

The company believes that these claims are without merit and are vigorously defending these actions.

The following contractual obligations exist at December 31, 2008:

	Total	< 1 year	1 – 3 years
Operating lease commitments	\$126,077	\$104,416	\$21,661

### **14. CAPITAL MANAGEMENT**

The Company's main objectives when managing its capital are:

- to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- to safeguard the Company's ability to obtain financing should the need arise; and
- to maintain financial flexibility in order to have access to capital in the event of future acquisitions.

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## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

### 14. CAPITAL MANAGEMENT - continued

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets.

There were no changes to the Company's approach to capital management during the year ended December 31, 2008.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

### 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### a. Fair value of financial instruments

The Company has classified financial instruments as follows:

	<u>Year ended</u> <u>December 31, 2008</u>	<u>Year ended</u> <u>December 31, 2007</u>
<u>Financial assets</u>		
Held-for-trading, measured at fair value		
Cash	\$ 198,085	\$ 931,845
Restricted Cash	308,014	-
Loans and receivables, measured at amortised cost		
Other assets	562,144	402,652
<u>Financial liabilities</u>		
Other liabilities, measured at amortised cost		
Accounts payable and accrued liabilities	\$ 7,542,084	\$ 2,599,292
Debt	\$6,172,317	\$ 3,022,899
Lease	\$ 499,484	\$ -

#### b. Allowance account for credit losses

	<u>Year ended</u> <u>December 31, 2008</u>	<u>Year ended</u> <u>December 31, 2007</u>
Accounts receivable	\$ -	\$ -
Allowance for doubtful accounts	-	-
Other	-	403
	<u>\$ -</u>	<u>\$ 403</u>

Allowance for credit losses is included in prepaid expenses and other receivables.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued**

#### *c. Fair value of financial instruments*

The balance sheet carrying amounts for cash, restricted cash and other assets, accounts payable, debt and other liabilities approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

#### *d. Risk management policies and hedging activities*

The Company is sensitive to changes in commodity prices, foreign exchange and interest rates. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Although the Company has the ability to address its price-related exposures through the use of options, futures and forward contracts, it does not generally enter into such arrangements. Similarly, derivative financial instruments are not used to reduce these financial risks.

#### ***Credit risk***

Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash. Cash is maintained with several financial institutions of reputable credit and may be redeemed upon demand. It is therefore the Company's opinion that such credit risk is subject to normal industry risks and is considered minimal.

#### ***Liquidity risk***

Liquidity risk arises from the Company's financial obligations and in the management of its assets, liabilities and optimal capital structure. The Company manages this risk by regularly evaluating its liquid financial resources to fund its current and long term obligations and to meet its capital commitments in a cost effective manner. The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, future capital expenditure requirements, scheduled repayments of long-term debt obligations, the Company's credit capacity and expected future debt and equity capital market conditions.

The Company's liquidity requirements are met through a variety of sources, including: cash on hand, cash generated from operations, existing credit facilities, leases, and debt and equity markets.

Weakening global economic conditions have led to a significant weakness in exchange traded commodity prices in recent months, including diamond prices. In general, credit market conditions have increased the cost of obtaining capital and limited the availability of funds.

Given the Company's financial position, available credit facilities and the fact that there are scheduled maturities on its debt in 2008, the Company currently expects a need to access debt and equity markets for financing over the next twelve months. However, because the duration of the general economic uncertainty and its detrimental effect on credit and capital markets is unknown, it is difficult to determine the long-term impact on the Company.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued**

In light of current market conditions, the Company has initiated a series of measures to bring its spending in line with the projected cash flows from its operations and available project specific facilities in order to preserve its balance sheet and maintain its liquidity position, as well as selling non-core assets.

Management currently believes that based on its financial position and liquidity profile at December 31, 2008, the Company will be able to satisfy its current and long-term obligations. As at December 31, 2008, these consolidated financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern (Note 1).

#### ***Currency risk***

The Company is exposed to currency risk as its principal business is conducted in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated from US dollars and South African rands into Canadian dollars. Unfavourable changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gains or losses. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

For the year ended December 31, 2008, everything else being equal, a 5% increase or decrease in the exchange rate between the Canadian dollar, the South African rand and the US dollar would have resulted in a respective \$2,273,915 decrease and increase in the Company's net loss.

#### ***Interest rate risk***

Interest rate risk is the potential impact on the Company's earnings due to changes in bank lending rates and short term deposit rates.

The Company's exposure to interest rate risk is as follows:

Cash	Variable interest rate
Other assets	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing/variable interest rate
Short term debt	Variable interest rate

The Company believes that the interest rates prevailing in Canada should not significantly increase in 2009 and estimates that its interest rate risk exposure will diminish in future years.

#### ***Market risk***

Market risk is the risk that the value of a financial instrument might be adversely affected by a change in commodity prices, interest rates or currency exchange rates. The Company manages the market risk associated with commodity prices by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued**

#### *Title risk*

Title to mineral properties and mining rights involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. Although the Company has investigated title to all of its mineral properties for which it holds concessions or other mineral leases or licenses, the Company cannot give any assurance that title to such properties will not be challenged or impugned and cannot be certain that it will have valid title to its mining properties. The Company relies on title opinions by legal counsel who base such opinions on the laws of countries in which the Company operates.

#### *Country risk*

The DRC is a developing country and as such, the Company's exploration projects in the DRC could be adversely effected by uncertain political or economic environments, war, civil or other disturbances, and a changing fiscal regime and by DRC's underdeveloped industrial and economic infrastructure.

The Company's operations in the DRC may be effected by economic pressures on the DRC. Any changes to regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by such factors as DRC government regulations with respect to currency conversion, production, price controls, export controls, income taxes or reinvestment credits, expropriation of property, environmental legislation, land use, water use and mine safety.

There can be no assurance that policies towards foreign investment and profit repatriation will continue or that a change in economic conditions will not result in a change in the policies of the DRC government or the imposition of more stringent foreign investment restrictions. Such changes cannot be accurately predicted.

### **16. SEGMENTED INFORMATION**

The Company's reportable segments have been determined at the level where decisions are made on the allocation of resources and capital, and where internal financial statements are available, which is essentially the different geographic regions. The South African segment comprises the exploration, development, mining, processing and marketing of its diamonds in South Africa. The DRC segment represents the Company's exploration activities in the DRC. The Corporate segment comprises its general corporate activities.

As the South African operations are in the development stage, all the direct costs incurred for projects that initialised bulk sampling activities are capitalized, and revenue earned from the sale of diamonds reduce the deferred capitalized costs. For the DRC, its exploration costs are capitalized. Canadian corporate costs are expensed to the statement of operations and deficit. Further discrete segment information is provided in Note 9.

# BRC DiamondCore Ltd.

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December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### 16. SEGMENTED INFORMATION - continued

The Company carries on business in the following geographic areas:

2008	Group	Canada	DRC	South Africa
Net operating loss	\$ 103,055,588	\$ 60,018,696	\$ 13,658,872	\$ 29,378,020
Finance income	(101,954)	(34)	-	(101,920)
Finance expense	48,015	6,754	-	41,261
Net loss	103,001,649	60,025,416	13,658,872	29,317,361
Segment assets	19,112,324	177,765	6,354,163	12,580,396
Segment liabilities	16,547,090	10,005,270	538,851	6,402,259
Depreciation	\$ 104,205	\$ -	\$ -	\$ 104,205

2007	Group	Canada	DRC
Net operating loss	\$ 1,809,992	\$1,809,992	\$ -
Finance income	-	-	-
Finance expense	22,899	22,899	-
Income Tax expense	-	-	-
Net loss	1,832,891	1,832,891	-
Segment assets	18,316,988	3,455,447	14,861,541
Segment liabilities	5,622,191	5,170,880	451,311
Depreciation	\$ -	\$ -	\$ -

# **BRC DiamondCore Ltd.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007 (amounts in Canadian dollars, unless otherwise specified)

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### **17. SUBSEQUENT EVENTS**

As a result of the continued depressed state of the diamond market with diamond prices at a level such that operating costs would exceed expected revenue, the Company has placed all its South African operations on a care and maintenance basis. It has consequently retrenched all employees of its South African operations. This process is expected to be concluded by April 11, 2009.

The application by the Company's subsidiary, Samadi Resources (SA) (Pty) Ltd, in the High Court (South Gauteng Provincial Division) for a declarator against its former BEE partner Sefalana Mineral Resources (Pty) Ltd. was refused on March 27, 2009. The judgment did not interfere with the current shareholder structure, has no effect on the Company financially and no effect on its current mining order rights. The application was brought in order to dispose of any uncertainty regarding the annulment of the BEE agreements between Samadi and Sefalana. Samadi remains committed to its current BEE shareholder Leswika Resources (Pty) Ltd and will oppose any attempt by Sefalana to rely on the Court's refusal to issue a declarator in favour of Samadi. Samadi has been advised by its legal representatives that there are good grounds for an appeal and will shortly file a notice appealing the judgment.

## **BRC DIAMONDCORE LTD.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") has been prepared by management and provides a review of the activities, results of operations and financial condition of BRC DiamondCore Ltd. (formerly BRC Diamond Corporation) (the "Company" or "BRC DiamondCore") based upon Canadian generally accepted accounting principles. This MD&A should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2008, as well as the notes thereto and the audited consolidated financial statements as at and for the financial year of the Company ended December 31, 2007 ("fiscal 2007") and the notes thereto. All amounts are expressed in Canadian dollars unless otherwise stated. For the financial year ended December 31, 2008, this MD&A includes operations in Canada and operations in the Democratic Republic of the Congo ("DRC") and South Africa, whereas for the year ended December 31, 2007 only operations from Canada and the DRC are included.

This MD&A is dated as of March 31, 2009. Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com)

#### **FORWARD-LOOKING STATEMENTS**

The following MD&A contains forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements relating to future diamond prices, future diamond sales, future production, exploration results, potential mineralization and future plans and objectives of the Company) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, uncertainties relating to the availability and costs of financing needed in the future, the possibility that future exploration results will not be consistent with the Company's expectations, changes in equity markets, changes in diamond markets, foreign currency fluctuations, political developments in the DRC or South Africa, changes to regulations affecting the Company's activities, delays in obtaining or failure to obtain required project approvals, the uncertainties involved in interpreting geological data and the other risks involved in the diamond exploration business. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and accordingly undue reliance should not be put on such statements due to the inherent uncertainty therein.

#### **COMPANY OVERVIEW**

The Company is engaged in the acquisition, exploration and development of diamond properties in known diamond producing areas in the Northern Cape of South Africa and in the DRC.

The Company's shares commenced trading on the Toronto Stock Exchange on February 11, 2008, following the acquisition by the Company of Diamond Core Resources Limited ("Diamond Core"), a South African based diamond exploration and development company listed on the JSE Limited ("JSE") in Johannesburg, South Africa. Diamond Core is primarily engaged in diamond exploration and trial mining in the middle Orange area of Northern Cape, South Africa. Prior to the acquisition

the Company's shares had traded on the TSX Venture Exchange . The Company also obtained a secondary listing on the JSE in connection with the Diamond Core transaction. The purchase price of the acquisition was \$94.3 million paid through the issuance of shares to the shareholders of Diamond Core.

For the year ended December 31, 2008, the Company reported a net loss of \$103,001,649 (a net loss of \$1,832,891 in 2007). The net asset value of the Company was \$2,565,234 as at December 31, 2008 (2007: \$12,694,797).

The first cause of the loss for 2008 was the impairment of the entire goodwill of \$54,558,329 arising from the acquisition of Diamond Core and the impairment of properties and capital assets. The goodwill arose at the time of purchase from the difference between the purchase price paid of \$94.3 million paid for the outstanding shares in Diamond Core and the actual fair value of the assets acquired in Diamond Core.

The second cause of the loss was the impairment of mineral properties and capital assets due largely to the substantial decrease in diamond prices at the time of valuation affecting the valuation of the mineral resources and the current economic conditions decreasing the value of assets generally.

The Company's accumulated deficit as at December 31, 2008 was \$108,890,567 (2007 – \$5,888,918). The Company has a working capital deficit of \$13,033,742 as at December 31, 2008 and had a net decrease in cash of \$733,760 and used net cash in operating activities of \$78,224 during the year. While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions may cast substantial doubt upon the validity of this assumption. In the event the Company is unable to identify recoverable resources, receive the necessary permitting, or arrange appropriate financing, the carrying value of the Company's assets could be subject to further material adjustment. Furthermore, certain current market conditions including declining diamond carat prices have cast significant doubt upon the validity of this assumption.

The Company's ability to continue operations in the normal course of business is dependent on several factors, including its ability to secure additional funding, and achieve or sustain profitable operations. Management is exploring all available options to secure additional funding including equity and debt financing, sale of non-core assets and strategic partnerships. In addition, the recoverability of amounts shown for mineral properties and long-lived assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain financing to complete the development of the properties where necessary and upon future profitable production, or, alternatively, upon the Company's ability to recover its spent costs through a disposition of its interests, all of which are uncertain in the current climate. It is not possible to determine with any certainty the success and adequacy of these initiatives. It is also not possible to determine the timing of completion of these initiatives required to enable the Company to continue until such time as when diamond prices recover and the Company is able to earn positive operating cash flows.

## **Highlights**

### ***South Africa***

#### **Strategic Review**

In a response to the ongoing weakening global economic conditions that have further adversely affected both diamond prices and the Company's access to both debt and equity finance the Company undertook a strategic review of each of its South African operations. The average cost of production at each of the Company's bulk sampling operations, i.e. Paardeberg, Silverstreams and De Kalk, exceeded the expected revenue from the proceeds of sale of recovered diamonds. Consequently the Company suspended its bulk sampling operations in December 2008. The Company used the opportunity to maintain and implement appropriate refurbishment of the recovery plants. The Company also used the opportunity to develop its human capital by using the

shutdown period to continue the Company's HIV/AIDS awareness and in-house training of personnel.

This strategy was implemented to conserve cash in the light of the then prevailing economic conditions and to remain poised to resume an appropriate level of activities if a diamond price recovery was to occur. As at December 31, 2008 no decision had been taken with regard to the general retrenchment of staff (but see "Subsequent Events" with respect to events since December 31, 2008). A contractor was used to undertake the bulk sampling at De Kalk but this service was terminated on December 31, 2008.

### General

Bulk sampling/trial mining was completed at the Paardeberg East kimberlite project and during the month of October 2008 material from Mazal tailings dump and P.K. 1 overburden stripping were hauled to the plant and processed. In the fourth quarter, the Company decided to place Paardeberg East on care and maintenance.

Bulk sampling continued at the Silverstreams alluvial project. The metallurgical plant upgrade was completed and commissioned on 8 October 2008. The project was put on care and maintenance later in the fourth quarter.

Bulk sampling continued at the De Kalk alluvial project but then later in the fourth quarter the bulk sampling was suspended.

The Company offered its diamonds for sale by way of tender. During the year ended December 31, 2008 the sales each quarter were:

### Silverstreams

	<b>Total weight (Carats)</b>	<b>Stones (Number)</b>	<b>Average Size (Carats)</b>	<b>US\$/Carat</b>	<b>Total Value (US\$)</b>
<b>1<sup>st</sup> quarter</b>	688.26	455	1.51	\$ 1,446	\$ 995,150
<b>2<sup>nd</sup> quarter</b>	1,036.27	486	2.13	\$ 2,740	\$ 2,839,447
<b>3<sup>rd</sup> quarter</b>	1,014.91	455	2.23	\$ 1,993	\$ 2,022,284
<b>4<sup>th</sup> quarter</b>	542.96	299	1.80	\$ 1,083	\$ 681,123
<b>Total</b>	<b>3,282.4</b>	<b>1695</b>	<b>1.94</b>	<b>\$ 1,991</b>	<b>\$6,538,004</b>

### De Kalk

	<b>Total weight (Carats)</b>	<b>Stones (Number)</b>	<b>Average Size (Carats)</b>	<b>US\$/Carat</b>	<b>Total Value (US\$)</b>
<b>1<sup>st</sup> quarter</b>	0	0	0	0	0
<b>2<sup>nd</sup> quarter</b>	0	0	0	0	0
<b>3<sup>rd</sup> quarter</b>	46.63	30	1.55	\$2,365.64	\$110,310
<b>4<sup>th</sup> quarter</b>	29.27	15	1.95	\$1,766.69	\$ 51,704
<b>Total</b>	<b>75.90</b>	<b>45</b>	<b>1.04</b>	<b>\$2,134.57</b>	<b>\$162,014</b>

**Paardeberg  
East**

	<b>Total weight (Carats)</b>	<b>Stones (Number)</b>	<b>Average Size (Carats)</b>	<b>US\$/Carat</b>	<b>Total Value (US\$)</b>
<b>1<sup>st</sup> quarter</b>	3,362.32	10,426	0.32	\$ 200.00	\$ 672,824
<b>2nd quarter</b>	3,849.53	12,289	0.31	\$ 278.53	\$ 1,072,197
<b>3rd quarter</b>	1,943.33	6,387	0.30	\$ 353.59	\$ 687,150
<b>4th quarter</b>	470.24	2,155	0.20	\$ 30.85	\$ 14,733
<b>Total</b>	<b>9,625.42</b>	<b>31,257</b>	<b>0.31</b>	<b>\$ 254.21</b>	<b>\$ 2,446,904</b>

During the year ended December 31, 2008, the Company in total sold 12,983.72 carats for a total value of US\$ 9,146,923.

Both the Paardeberg East and Silverstreams bulk sampling plants have been configured for exploration purposes but can be utilized in a production capacity should a decision be taken to do so. Both sampling plants have been equipped with weightometers in order to make accurate measurements of tonnages treated. Both plants have been configured to optimize recoveries from the unique size frequency curves of each deposit. At De Kalk the bulk sampling was at a much smaller scale and was done by a contracted operator.

The services of a diamond consultant, Ramon Ferraris of QTS-Kristal Dynamical of Kimberley, South Africa, were retained to audit the bulk sampling plants, bulk sampling process and diamond analysis on the Paardeberg East, Silverstreams and De Kalk sites. The tenders were overseen by Mr. Ferraris and an additional diamond consultant to the Company, Mr. Maurice Barker.

**Silverstreams Bulk Sampling Alluvial Project**

The Company commissioned the metallurgical plant upgrade successfully on October 8, 2008. The upgrade increased plant capacity by 50%. The plant now comprises a Taurus rotary screen 670tph front end, six 16ft rotary pans, a 50tph re-concentrating Dense Medium Separation plant, a primary Flow Sort X-Ray machine recovery unit, an attritioner, a secondary Bateman GB 1000 automated grease belts recovery unit and a "hands off" sort house.

A decision was taken by the Company to suspend bulk sampling in the fourth quarter due to the unfavourable economic conditions.

**De Kalk Bulk Sampling Alluvial Project**

Bulk sampling commenced at the De Kalk project on August 1, 2008. The plant consists of front-end with a Warrior 1800 in pit screen, two 16 ft rotary pans, a final recovery with two Flow sort X-ray machines and a sort house.

A total of 25,439 tonnes was mined of which 19,784 tonnes was processed through the metallurgical plant.

Bulk sampling was also suspended in the fourth quarter of 2008 due to poor economic conditions.

**Sandrift Alluvial Prospecting Project**

The Company did no further exploration in the fourth quarter of 2008.

## Paardeberg East Bulk Sampling Kimberlite Project

The Paardeberg East project is the most advanced of the Company's kimberlite exploration projects. The project comprises a Mining License over various portions of the farm Paardeberg East 153 located approximately 35km west of Kimberley in the Northern Cape Province of South Africa.

A number of known kimberlites have been identified on the property, some of which have been the subject of several phases of intermittent exploration and exploitation from the early 1900's up until 2003. Within the project area are eight potential targets, namely proved kimberlites (PK) PK1, PK2, PK3, PK4 and PK5 and prospective anomalies (PA) PA6, PA7 and PA8. Kimberlites PK1, PK2, PK3 and PK5 are known to be diamondiferous, but very little is known about anomalies PA6, PA7 and PA8.

The kimberlite with the greatest prospect is currently represented by the PK1 kimberlite and to a lesser extent the PK3 kimberlite. All five known kimberlites bodies (PK1, PK2, PK3, PK4 and PK5) were worked at one time or another, as there are signs of adits, shafts and pits on, or in the vicinity of all five.

The diamond analysis of the product from various sampling positions on the 2.2ha PK1 kimberlite pipe representing distinct kimberlite facies, as well as the ongoing sampling operations at PK2, PK3 and PK5, was undertaken by independent consultants on an ongoing basis since the second quarter of 2008.

During the fourth quarter of 2008 the Company tested and sampled only the PK 1 overburden and old tailing stockpiles.

The Paardeberg East metallurgical sampling plant comprises a front end, with primary crushing (to -55mm), a 50tph Bateman Dense Media Separation plant (DMS), secondary re-crush (to -18mm) and tertiary re-crush (to-13mm) circuits and has a 37tph ROM capacity. DMS feed is screened at 25 mm. The final recovery consists of two Flow-Sort X-ray machines, an attritioner, two Bateman GB 800 grease belts and a "hands-off" sort house.

A decision was taken by the Company to suspend bulk sampling operations in the fourth quarter of 2008.

## ***Democratic Republic of the Congo ("DRC")***

### **General**

The Company's operations in the DRC consist of the exploration and evaluation of mineral properties for diamonds. During the 2008 fiscal year the Company's DRC diamond exploration programmes focused on the Tshikapa area in southern DRC and the Bafwasende project in northern DRC. Although some work was done along the Kwango River and the Candore and Lubao projects in southern DRC and the Zongo and Businga projects in northern DRC these areas have been downgraded in terms of their prospectivity.

In summary during the fiscal year the follow data were collected:

#### 1. Kimberlite exploration:

- 619 reconnaissance stream samples were collected covering 12,045km<sup>2</sup>.
- 150 follow-up samples taken over various heavy mineral anomalies in the Tshikapa area.
- 39 sample consignments were received from the laboratories.
- 4,272 line kilometres of regional airborne magnetic was flown (200m line spacing) covering 743km<sup>2</sup>.
- 1,205 line kilometres high-resolution follow-up helicopter borne magnetic data (50m line spacing) over 34 blocks was completed.
- A reinterpretation of the geophysical data has earmarked 35 targets for drilling.

- During the year 19 holes were drilled over 13 targets to a cumulative depth of 1 390m.
2. Alluvial prospecting: 4 holes drilled to a cumulative depth of 65m; a screen analysis of diamond parcels from several sites was conducted and a preliminary economic assessment of the Kwango alluvial deposits was completed.

No safety incidents or accidents have been reported during the 2008 financial year.

### Security of tenure

With all the data available from exploration activities of 2007 and 2008, the Company was able to adjust its permit portfolio in order to focus on the most prospective areas. For that reason two projects in Northern DRC, Zongo and Businga, and four projects in the southern DRC, Ilunga, Vangu Phambu, Lubao and most of Candore, were closed and the permits relinquished.

The present ground holding is summarized in the attached table. It should be noted that over several licences the legal requirement to reduce the permit by at least 50% after 4 years applies. So that even if a permit might be reduced in surface area it is still recorded as a valid permit.

Company	Relinquished 2008		Added 2008		Permits at Dec 2008	
	Number Permits	Km <sup>2</sup>	Number Permits	Km <sup>2</sup>	Number Permits	Km <sup>2</sup>
<b>BRC</b>	10	2,100	0	0	6	2,113
<b>Acacia</b>	5	1,515	0	0	11	1,815
<b>BCE</b>	15	5,508	0	0	16	5,344
<b>BCM</b>	0	0	0	0	1	351
<b>Candore</b>	8	1,798	0	0	5	816
<b>Caspian O &amp;G</b>	0	0	2	164	11	3,229
<b>CCE</b>	12	3,167	0	0	0	0
<b>Coexco</b>	0	0	44	6,904	44	6,904
<b>Groupe Abba</b>	0	0	1	178	1	178
<b>IEL</b>	0	0	2	279	2	279
<b>Ilunga</b>	1	8.5	0	0	0	0
<b>King's Mine</b>	2	136	0	0	1	77
<b>Kwango Mines</b>	2	528	0	0	3	590
<b>Vangu Phambu</b>	1	180	1	180	0	0
<b>Total</b>	<b>56</b>	<b>14,940.5</b>	<b>50</b>	<b>7,705</b>	<b>101</b>	<b>21,696</b>

During the year some 56 permits were relinquished covering almost 15,000km<sup>2</sup>. The Company signed the following agreements in order to access other prospective ground: Caspian Oil and Gas (2 permits), Groupe Abba (1 permit), IEL (2 permits) and Vangu Phambu (1 permit) all in the Tshikapa project area. It should be noted that the permit belonging to Vangu Phambu was covered within the year and since no positive results were achieved it was dropped within the same year. The ground holding was reduced from approximately 27,000km<sup>2</sup> to 21,000km<sup>2</sup> at which it now stands. The total number of PR's to which Company has access was increased by 6 permits mainly related to access to the Coexco ground in the northern DRC which consists of 44 small licences.

### **Project Kwango River**

Reconnaissance stream sampling of the Kwango River basin project continued in the Wamba drainage where several permits were covered with stream sediment sampling. Although several samples returned interesting numbers of kimberlitic minerals the surface textures of these grains suggest that these have been sourced well outside the Company's permit area. Results received for the Kwango River also indicated that all kimberlitic minerals recovered so far have more than likely travelled from primary sources more upstream than the present project area and probably out of Angola.

The reconnaissance drilling and pitting program and the main follow up drill holes and pits, to model the volume of the various gravel terraces in more detail, has been completed. A size frequency analysis of several diamond parcels, obtained from local operators working on many digging sites along the Kwango River, was conducted. The total number of holes dug and drilled on the Kwango project now stands at 1,248 and 266 respectively. This has provided a gravel resource of approximately 12 million tonnes. However based on the diamond size frequency data and the operating cost per tonne it is not an economic resource, and the low diamond value per carat, the high stripping ratio, the high operating cost per tonne in the DRC and logistical support are particular of concern. The decision was subsequently taken to terminate the project.

### **Project Tshikapa**

The Tshikapa area has produced well over 100 million carats of diamonds and results from the stream samples taken in the area indicate that abundant kimberlitic indicators are present. It has further been established that these are not abraded and hence are not far removed from their primary source(s). In addition, the chemistry of these minerals suggests that they have been derived from mineralized kimberlites.

Following a program of detailed stream sampling and airborne geophysics at Tshikapa, the Company retained 2,400 km<sup>2</sup> of the most prospective ground with very encouraging geophysical and sampling targets.

The Company began drilling in June 2008 using a man portable core drill rig capable of drilling down to 300 metres. Of the 12 holes drilled between June and September, two holes intersected ironstone, three intersected late stage granites and two went into grano-diorites. The final three holes intersected breccia. Two additional option agreements were signed with Group Abba and Investors Equity Ltd. respectively for four licences in favourable geological terrain around Tshikapa and which contain very promising geophysical targets.

The Tshikapa project consists of the following components: Acacia, Candore, Ilunga, Kwango Mines and Group Abba/King's Mine/Caspian/IEL. The focus of the program during the year was to locate accurate drill positions on the ground through detailed geophysical surveys (airborne and on the ground) and drilling.

The whole geophysical dataset was re-interpreted by an independent Australian based geophysical consultant – Diamond Geophysics. This has resulted in a complete review of BRC's targets in the Tshikapa area with an appropriate interest rating for each target. Drilling started midway through the year and 18 holes were drilled to a cumulative depth of 1,318 metres.

In addition the area was covered by regional Airborne Magnetics (150m or 200m line spacing) and 5,432 line kilometres were flown covering 798km<sup>2</sup>. Finally, follow-up high-resolution helicopter borne magnetic surveys (50m line spacing) were flown over selected anomalies to accurately define drill targets and 33 blocks (each approximately 1.6km<sup>2</sup> in size) were covered.

### Acacia

Some 88 stream samples were collected covering areas in the Acacia permits that had previously not been sampled while some very positive sample results were received from the heavy mineral laboratory MSA. In addition, 28 follow-up geophysical targets were flown (Detailed Airborne Surveys) using a line spacing of 50m. Finally a total of 7 holes were drilled over the Acacia licences to a cumulative depth of 678 metres. Three holes intersected volcanic breccias, two ended up in red sandstones with slightly higher magnetic susceptibilities, and one each is a granite and sedimentary breccia respectively.

### Candore

Drilling of the most promising targets on the Candore ground and which have been graded moderately interesting at best, have been completed and no kimberlites were found. The option contract has therefore been terminated and the ground has been returned to Candore for relinquishment.

### Ilunga

Two holes were drilled on a very promising target in the Ilunga permit and both returned granodiorite. No further work has been scheduled and the option agreement has therefore been cancelled.

### Kwango Mines

Four geophysical follow up blocks were flown (DAF) on 50m line spacing. These were used to position the four boreholes that were drilled on the Kwango Mines permit with a cumulative depth of 453 metres. One hole ended in a granite 'sill', one in a sedimentary breccias, one in gneiss and one in a magnetic rich sandstone. Based on the excess sedimentary cover of this permit and the disappointing drilling results the Kwango Mines permits have been relinquished.

### Group Abba, King's Mine, Caspian and IEL

The Group Abba and King's Mine permits were flown and 1,047 km<sup>2</sup> was covered by a 200m line spacing airborne survey. In addition 21 stream samples were collected over the Group Abba ground. This was married to the exploration data that was collected by De Beers in 2006 and 2007 over the Caspian Oil and Gas and Investors Equity Ltd permits. These four permits were acquired by BRC through option agreements. Several high interest drill targets with respect of sampling and geophysics were identified. Accurate GPS positions have been acquired through detailed ground magnetic surveys and these will be drilled as soon as the rig is available. Two of the three King's Mine permits were proven to be of no interest and have been relinquished.

### **Project Lubao**

Geological interpretation of both field and laboratory data has revealed that further work in this area is unlikely to produce a diamond bearing kimberlite of economic interest. This is supported by recent geological modelling of the area based on various geophysical and geological factors which indicates that the Lubao properties are not underlain by Achaean Craton. Although alluvial diamonds have been found along the Lomani River near Lubao these have most likely been derived from the kimberlites discovered in 2006 by De Beers on the Bugeco properties approximately 50 kilometres upstream. It has therefore been decided to relinquish all the ground associated with the Lubao project in order to focus the Company's resources in more promising areas.

### **Project Businga**

A start was made with the early stage reconnaissance program in the northern DRC in 2007. Following on from the Zongo project the Businga ground was also covered by reconnaissance stream samples (200 litres of screened material) on a grid of 1 to between 20 to 30 km<sup>2</sup>. This area has some historical diamond workings which had been of interest. During the first quarter of the year 271 stream samples had been collected covering 6,775 km<sup>2</sup> of ground. All samples were concentrated in Kinshasa at the BRC treatment station and forwarded to the Rio Tinto Laboratory in Perth Australia. Only sporadic grains of spinel and several small but scattered diamonds were recovered and the prospectivity of this ground was downgraded and relinquished.

### **Project Bafwasende**

Following the wet season between March and September in northern DRC a start was made with the green field project around Bafwasende in September. This project covers ground belonging to Coexco, BCE and BRC. Again stream sampling program was initiated sampling all drainage at a density of between 1 sample every 20 to 30 km<sup>2</sup>. Volumes of the samples were 200 litres of screened (0.4 to 0.7mm) material.

In total 179 samples were collected covering some 3,500km<sup>2</sup> and coverage of the project area will be completed in the first quarter of 2009.

### **Wamba Project**

Several licences were taken out in the Wamba drainage basin where diamonds and kimberlitic minerals have been reported. Stream sampling has confirmed confined kimberlite targets and once all the microprobe results have been received a program of airborne geophysics over selected areas will be initiated.

### **Northern DRC - Joint Venture Project with Rio Tinto**

Northern DRC and the Central African Republic (the "CAR") are considered to be one of the few remaining highly prospective regions in the world for diamond exploration. The Company's land package forms part of the joint venture with Rio Tinto, as reported in the Company's press release of June 12, 2008. Rio Tinto has the right to earn in project equity over the various stages of the exploration programme through meeting the costs of that exploration.

Work in the form of regional stream sampling for heavy minerals started in November 2007 and to date some 15,000 km<sup>2</sup> have been covered. It is planned to have the remaining 13,000 km<sup>2</sup> completed by April 2009. Simultaneously, applications for other prospecting licences have been made.

Stream sampling over most of the licence areas associated with the Businga ground in Equateur Province, has been completed and all laboratory results have been received from the Rio Tinto laboratory. Several interesting anomalies have been identified over several licence areas. The results identified several diffused diamond/chromite anomalies that have been earmarked for further work. The licences that reported negative results have been relinquished.

Results from the stream samples collected over the Zongo project situated along the Ubangui River in Equateur were all negative and the licences associated with this project have been relinquished.

An exploration base was set up at Bafwasende (the Bomili project) and with the onset of the 'dry' season the reconnaissance sampling program over the Coexco ground started in the middle of September. During the quarter, 54 samples were collected covering some 1,620 km<sup>2</sup>. Many alluvial diamond occurrences have been noted.

### **LICENCE HOLDING**

In order to focus the exploration program on the most promising areas, many licences were relinquished with a high degree of confidence and at the same time applications have been lodged for more interesting ground and option agreements were signed with three more companies: Group Abba and Caspian Oil & Gas and Investors Equity Ltd.

#### **a) Relinquishments.**

During the year the following 53 prospecting licences were relinquished: Acacia (5), BCE (15), BRC DiamondCore (10), Candore (8), CCE (12), Ilunga (1), King's Mine (2).

#### **b) Additional ground.**

Option agreements were signed with Group Abba and Caspian Oil & Gas and AEL for one, two and two licences respectively in the Tshikapa area bringing the total licences to which the Company has access to 101. The said agreement with Caspian Oil & Gas is in addition to the agreement signed with the same company in the first quarter of this year for nine

licences in northern DRC. An agreement was also signed with Coexco for 44 permits in northern DRC.

c) Current prospecting licences.

The following licences are currently held by the Company (through its DRC subsidiary) or are covered by option agreements entered into by the Company with the licence holders: Acacia (11), BCE (16), BCM (1), BRC DiamondCore (6), Candore (5), Caspian Oil & Gas (11), Coexco (44), Group Abba (1), King's Mine (1), Kwango Mines (3) and TEL (2). These licences represent a total surface area of 26,349 km<sup>2</sup>.

## **QUALIFIED PERSON AND TECHNICAL REPORTS**

Dr. Michiel C. J. de Wit, the Company's President and a "qualified person" as such term is defined in National Instrument 43-101, has reviewed and approved the technical information in this MD&A.

Additional information with respect to the Company's Tshikapa project is contained in the technical report prepared by Dr. M de Wit and Fabrice Matheys, dated March 31, 2009 and titled "National Instrument 43-101 Technical Report on the Tshikapa Project of BRC DiamondCore Ltd. in the Democratic Republic of the Congo".

Additional information with respect to the Company's South African projects is contained in the technical report prepared by Venmyn Rand (Pty) Limited, dated July 31, 2007 and titled "National Instrument 43-101 Technical Report Prepared on the Mineral Assets of Diamond Core Resources Limited in the Northern Cape and Free State Provinces, South Africa".

Copies of these reports can be obtained from SEDAR at [www.sedar.com](http://www.sedar.com).

## **TRANSACTION WITH DIAMOND CORE RESOURCES LIMITED**

In July 2007, the Company and Diamond Core Resources Limited ("Diamond Core") announced that they had entered into an agreement to merge the two companies by way of a court-sanctioned scheme of arrangement ("the scheme") under South African corporate law, pursuant to which the Company would acquire all of the outstanding shares of Diamond Core in exchange for the issuance of BRC DiamondCore common shares. Under the scheme, each Diamond Core shareholder was entitled to receive one BRC DiamondCore share for every 24.5 Diamond Core ordinary shares held. On January 14, 2008, Diamond Core shareholder approval was obtained, and court approval was obtained on January 22, 2008. On February 11, 2008, the Company acquired all of the outstanding Diamond Core shares and, as the consideration for this acquisition, issued BRC DiamondCore shares to the Diamond Core shareholders in the agreed ratio, resulting in the issuance by the Company of a total of 12,089,678 common shares. In connection with this acquisition, the Company changed its name from BRC Diamond Corporation to BRC DiamondCore Ltd. and its shares were listed on the Toronto Stock Exchange and the JSE Limited in Johannesburg, South Africa.

Previously in July 2005, Diamond Core acquired all of the outstanding shares of Samadi Resources SA (Pty) Ltd ("Samadi"). As consideration for this acquisition, Diamond Core issued ordinary shares to Samadi's shareholders. The terms of the acquisition agreement (the "Samadi Agreement") entered into by Diamond Core with the Samadi shareholders with respect to this acquisition provide for the potential issuance of additional Diamond Core ordinary shares should certain operating profits be reached from certain of the projects acquired by Diamond Core pursuant to the acquisition.

In anticipation of the implementation of the scheme, the Company and Diamond Core entered into an agreement (the "Samadi Amending Agreement") with the said Samadi shareholders pursuant to which the Samadi shareholders would, if the relevant profit thresholds are met, be entitled to receive BRC DiamondCore common shares in substitution for the Diamond Core ordinary shares, with the number of BRC DiamondCore shares issuable to such shareholders adjusted to reflect the exchange ratio applicable under the terms of the scheme. Accordingly, the number of BRC DiamondCore shares issuable to the said Samadi shareholders under the Samadi Amending Agreement, in the same circumstances as contemplated in the Samadi Agreement, is a maximum of 1,434,502 BRC DiamondCore shares.

Also in connection with the acquisition by the Company of all of the outstanding shares of Diamond Core (the "Diamond Core Acquisition"), 15,133,190 stock options that had been issued to employees of Diamond Core pursuant to The Diamond Core Resources Share Trust Deed to acquire 15,133,190 ordinary shares in Diamond Core (the "Old Options") have been substituted with new stock options of BRC DiamondCore (the "Replacement Options"), so as to allow all holders of Old Options to acquire the number of BRC DiamondCore common shares that is calculated by dividing the number of ordinary shares of Diamond Core that would otherwise have been issuable upon the exercise of the Old Options by 24.5, rounded up to the nearest whole number of BRC DiamondCore shares, with the exercise price of such Replacement Options being adjusted to the number that is equal to the exercise price of the Old Options (denominated in South African rand) multiplied by 24.5. A total of 617,710 Replacement Options were issued by the Company.

#### *Allocation of purchase price*

Based on BRC DiamondCore's average closing price of \$7.40 per share, calculated with reference to the share price around July 5, 2007, BRC DiamondCore issued 12,089,678 common shares valued at \$89,463,617 to Diamond Core shareholders holding 296,218,483 Diamond Core ordinary shares outstanding on the same date.

The acquisition has been accounted for using the purchase method of accounting with BRC DiamondCore being identified as the acquirer and Diamond Core as the acquiree. In accordance with the purchase method of accounting, assets and liabilities acquired from Diamond Core are measured at their individual fair values on the date of the acquisition and the difference between these fair values of net assets acquired and the purchase price is recorded in the consolidated balance sheet as goodwill.

The allocation of the purchase price to the assets and liabilities acquired as presented in these consolidated financial statements was finalized in the fourth quarter of 2008. The revisions to the results previously reported are not material. Venmyn Rand (Proprietary) Limited ("Venmyn") performed the fair values of certain mineral properties based upon the exchange rates, inflation levels, diamond prices, expected resource levels, mine life and extraction costs prevailing at that date.

The following table summarizes the components of the total purchase price and net assets acquired. It reflects fair-value adjustments for identifiable assets and liabilities acquired and assumed.

	<b>\$'000</b>
Issuance of 12,089,678 BRC DiamondCore common shares	89,464
Issuance of Replacement Options	2,477
Transaction costs	2,407
<b>Purchase price</b>	<b>94,348</b>

The allocation of the purchase price to the net assets acquired is as follows:

Cash	2,270
Trade and other receivables	1,253
Inventories	192
Mineral rights	14,188
Property, plant and equipment	17,051
Deferred exploration costs	8,891
Trade and other payables	(2,912)
Taxation	(126)
Asset retirement obligation	(1,017)
Net assets acquired	39,790
Goodwill	54,558
<b>Fair value of net assets acquired</b>	<b>\$94,348</b>

The consideration and transaction costs of \$94,347,641 exceeded the carrying value of the net assets acquired by \$54,558,329 which has been recorded as goodwill.

At December 31, 2008, the fair value of the South African reporting unit, based on undiscounted projected cash flows, was less than the carrying value. As a result, the Company recognized an impairment of the full amount of the Diamond Core goodwill of \$54,558,329. The decrease in the fair value was primarily due to the decline in price per carat and general economic conditions.

## **SELECTED ANNUAL INFORMATION**

The Company is in the diamond mining and exploration business and during the year under review acquired a business that engaged in bulk sampling and trial mining. Before the current year the Company had no expectation of revenues and there is no expectation of revenues from production in the foreseeable future with respect to the Company's DRC projects. The revenue realized from sales of diamonds produced from bulk sampling in the South African operations is used to recover exploration expenditure.

The following financial data which has been prepared in accordance with Canadian generally accepted accounting principles and is derived from the Company's audited consolidated financial statements for each of the three most recently completed financial years. The Company's reporting and measurement currency is the Canadian dollar.

	2008	2007	2006
Net loss	\$103,001,649	\$1,832,891	\$1,448,359
Net loss per share	\$4.20	\$0.14	\$0.12
Mineral properties and deferred exploration expenditures	\$9,075,139	\$14,188,659	\$7,459,562
Total assets	\$19,112,324	\$18,316,988	\$8,097,741

The Company's net loss for fiscal 2008 was significantly greater than that recorded for 2007. This is due to the impairment of the goodwill arising from the purchase of Diamond Core and the impairment of the Company's mineral properties and deferred exploration expenditures.

## RESULTS OF OPERATIONS

For the year ended December 31, 2008, the Company reported a net loss, of \$103,001,649 (or \$4.20 per share), compared to a net loss of \$1,832,891 (or \$0.14 per share) incurred during the year ended December 31, 2007. The increase in the net loss for the year 2008 as compared 2007 is due to the impairment of goodwill arising from the acquisition of Diamond Core and the impairment of mineral properties and capital assets.

An increase in exploration activity and the inclusion of Diamond Core results of operations post the Diamond Core acquisition, also contributed to the loss. The most significant items affecting the results of operations are the impairment of certain mineral properties and exploration cost in the DRC and South Africa totaling \$36,608,543 and capital assets in South Africa of \$6,796,346. Goodwill that arose from the transaction with Diamond Core of \$54,558,329 was also impaired. Operating results for the Diamond Core group of companies have been excluded prior to the Company acquiring control. The results of the Diamond Core operations have been included with effect from February 11, 2008.

Net revenue of \$8,475,174 (net of diamond inventory on hand of \$35,461) for the year ended December 31, 2008 earned from the sale of diamonds recovered from the bulk sampling operations in South Africa has been applied to reduce the overall deferred exploration costs incurred at the operations as the projects in question are still in the development stage.

Significant changes in expenses incurred during the year ended December 31, 2008 when compared to the year ended December 31, 2007. As a result of the acquisition of Diamond Core in the first quarter of 2008, the scope of activities of the Company were significantly different when compared to 2007. Comparisons between the two years will reflect this difference in scope and will not be a meaningful measure of comparative activity, performance or efficiency.

## SUMMARY OF QUARTERLY RESULTS

The following table sets out certain unaudited consolidated financial information of the Company for each of the last eight quarters, beginning with the fourth quarter of 2008. This financial information has been prepared in accordance with Canadian generally accepted accounting principles. The Company's reporting and measurement currency is the Canadian dollar.

	<b>2008</b> <b>4<sup>th</sup> quarter</b>	<b>2008</b> <b>3<sup>rd</sup> quarter</b>	<b>2008</b> <b>2<sup>nd</sup> quarter</b>	<b>2008</b> <b>1<sup>st</sup> quarter</b>
Net loss (\$'000)	\$ 90,873	\$ 7,498	\$ 1,193	\$ 3,438
Net loss per share (basic and diluted)	\$ 3.70	\$ 0.31	\$ 0.05	\$ 0.17

	<b>2007</b> <b>4<sup>th</sup> quarter</b>	<b>2007</b> <b>3<sup>rd</sup> quarter</b>	<b>2007</b> <b>2<sup>nd</sup> quarter</b>	<b>2007</b> <b>1<sup>st</sup> quarter</b>
Net loss (\$'000)	\$ 16	\$ 1,114	\$ 521	\$ 183
Net loss per share (basic and diluted)	\$ 0.01	\$ 0.08	\$ 0.04	\$ 0.01

During the fourth quarter of 2008, the Company's net loss increased to \$90,873,000 compared to a net loss of \$16,000 reported during the fourth quarter of 2007 this increase is due mainly to the impairment of goodwill, mineral properties and capital assets.

During the third quarter of 2008, the Company's net loss increased to \$7,499,000 compared to a net loss of \$1,193,000 reported during the second quarter of 2008. This increase was due mainly to the impairment of \$5,312,000 on certain properties in the DRC that had been relinquished, the accounting for stock based compensation and a reversal from unrealised foreign exchange profits to losses on the conversion of the South African balance sheet from a relatively weaker rand to the Canadian dollar.

During the second quarter of 2008, the Company's net loss decreased to \$1,193,000 compared to a net loss of \$3,438,000 reported for the first quarter of 2008, due mainly to a decrease in unrealised foreign exchange losses created on the revaluation of the South African balance sheet to Canadian dollars (June 30, 2008 - \$79,000; March 30, 2008 - \$2,794,000).

During the first quarter of 2008, the Company's net loss increased to \$3,438,000 compared to a net loss of \$15,533 in the last quarter of 2007, due mainly to the inclusion of the Diamond Core operating results and the unrealized foreign exchange loss recorded.

Certain professional and consulting fees incurred in relation to the Diamond Core Acquisition (see "Transaction with Diamond Core Resources Limited" above) were reclassified to deferred transaction costs during the fourth quarter of 2007, as such transaction was considered more likely than not to be completed. The Company's net loss during the third quarter of 2007 increased to \$1,113,593 compared to a net loss of \$520,544 incurred in the second quarter of 2007, mostly due to increased professional and consulting fees incurred in relation to the Diamond Core Acquisition. During the second quarter of 2007, the Company's net loss increased to \$520,544 compared to a

net loss of \$183,220 reported for the first quarter of 2007. The Company's net loss in the second quarter of 2007 was significantly impacted by the increase in professional fees related to the Diamond Core Acquisition and by a foreign exchange loss of \$176,000.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2008, the Company had cash of \$198,085 and a working capital deficit of \$13,033,742 compared to cash of \$931,845 and a working capital deficit of \$4,286,694 as at December 31, 2007.

The Company does not currently generate revenues other than potentially as a result of its bulk sampling activities. Net revenue generated from the bulk sampling activities, amounted to \$8,475,174 and consists of diamond sales of \$8,510,635 during 2008 less inventory on hand of \$35,461. This revenue through the year had been adequate to support but not grow the South African operations until the fourth quarter when the collapse of diamond prices meant that operating costs exceeded expected revenues from the sale of diamonds recovered from bulk sampling operations. This resulted in a suspension of the bulk sampling operations as reported above.

Similar to other foreign entities operating in South Africa, the Company is subject to currency exchange controls administered by the country's central bank. An ability to repatriate funds or operating profits, should any develop, may be adversely affected by such exchange controls, and consequently the ability to adequately finance the exploration in the DRC.

Historically, the Company has relied primarily on equity financings to fund its activities through private placement financings and the exercise of warrants and options. Although the Company has been successful in completing equity financings in the past, there is no assurance that the Company will secure the necessary financings in the future.

The Company's liquidity requirements are met through a variety of sources, including: cash on hand, cash generated from operations, existing credit facilities, leases, and debt and equity markets.

Weakening global economic conditions have led to a significant weakness in commodity prices in recent months, including diamond prices. In general, credit market conditions have increased the cost of obtaining capital and limited the availability of funds.

Given the Company's financial position, available credit facilities and the fact that there are scheduled interest payments on its debt in 2008, the Company currently expects a need to access debt and equity markets for financing over the next twelve months. However, because the duration of the general economic uncertainty and its detrimental effect on credit and capital markets is unknown, it is difficult to determine the long-term impact on the Company.

In light of current market conditions, the Company has initiated a series of measures to bring its spending in line with the projected cash flows from its operations and available project specific facilities in order to preserve its balance sheet and maintain its liquidity position, as well as selling non-core assets.

Management currently believes that based on its financial position and liquidity profile at December 31, 2008, the Company will be able to satisfy its current and long-term obligations. As at December 31, 2008, these consolidated financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern.

During the third quarter of 2008 the Company completed a private placement involving the issue and sale of 350,000 common shares of the Company at a price of \$1.50 per share for total proceeds of \$525,000. The proceeds were used for the exploration of the Company's diamond properties and for general corporate purposes.

During the fourth quarter of 2007, the Company obtained a \$3,000,000 credit line (the "Loan Facility") from a Canadian financial institution, of which \$3,000,000 was utilized as at December 31, 2007. During the first quarter of 2008, the Loan Facility was increased from \$3,000,000 to \$6,000,000. As at December 31, 2008, the balance of the Loan Facility was \$6,172,317 (December 31, 2007, \$3,022,899) including accrued interest of \$307,872 (December 31, 2007, \$22,899).

The Loan Facility is guaranteed by Banro Corporation, a significant shareholder of the Company. The Company has undertaken to release Banro from its guarantee as soon as possible. The Loan Facility was used to fund the Company's exploration activities until the second quarter of 2008. As at March 31, 2009, the Loan Facility guaranteed by Banro is still in place.

Contractual obligations (not on balance sheet) entered into by the Company as at the end of December 31, 2008 amount to \$126,078 compared to \$nil for the year ended December 31, 2007 and are summarized in the table below:

Contractual obligations	Total \$	Less than 1 year \$	1 - 3 years \$
Operating leases	\$126,079	\$104,416	\$ 21,661
	\$126,079	\$104,416	\$ 21,661

The Company is in the process of exercising an option agreement to secure an equity interest in prospective ground in the DRC currently held under option. The Company expects to pay approximately US\$350,000 as an option exercise fee.

## DEFERRED EXPLORATION EXPENDITURES

The following table provides a breakdown of the Company's deferred exploration expenditures per country and project for the year ended December 31, 2008:

### DRC

December 31, 2008	Kwango Project \$'000	Lubao Project \$'000	Tshikapa (Acacia) Project \$'000	Tshikapa (Candore) Project \$'000	Other Projects \$'000	Total \$'000
<b>Balance 12/31/2007</b>	<u>8,610</u>	<u>3,009</u>	<u>1,847</u>	<u>1,660</u>	<u>608</u>	<u>15,734</u>
Administrative and office support	503	97	238	277	603	1,718
Depreciation	-	-	-	-	259	259
Drilling	-	4	75	4	8	90
Field camp expenses	275	56	292	186	588	1,397
Geochemistry	-	-	-	-	-	-
Geology - contract geologists	-	-	-	-	-	-
Geophysics	28	-	240	-	-	268
Permits	7	68	141	211	95	523
Professional fees	153	21	58	4	226	462
Remote sensing	-	-	-	-	-	-
Stock based compensation	-	294	-	-	651	945
Transport and helicopter	534	12	113	39	181	878
Foreign exchange profit	342	-	-	-	22	364
Write off	<u>(10,452)</u>	<u>(2,916)</u>	-	<u>(1,965)</u>	<u>(1,454)</u>	<u>(16,788)</u>
Subtotal - 2008	<u>(8,610)</u>	<u>(2,682)</u>	<u>1,157</u>	<u>(1,245)</u>	<u>1,179</u>	<u>(10,201)</u>
<b>Balance 12/31/2008</b>	<u>-</u>	<u>327</u>	<u>3,032</u>	<u>415</u>	<u>1,787</u>	<u>5,561</u>

Other projects consist of the following projects: Tshikapa (Kwango Mines), King's Mine, Zongo, Businga, Bornili, Ilunga and Kwango (Acacia).

South Africa

December 31, 2008	Silverstreams \$'000	Paardeberg East \$'000	De Kalk \$'000	Total \$'000
<b>Balance at acquisition date</b>	\$ 346	\$ 3,046	\$ -	\$ 3,392
Administrative and office support	1,094	615	293	2,002
Depreciation	1,861	-	484	2,345
Field camp expenses	2,720	1,362	2,457	6,534
Foreign exchange loss - unrealized	162	323	-	485
Geology - contract geologists	30	66	3	99
Geophysics	-	11	15	26
Insurance	77	24	11	112
Inventory losses	-	(21)	-	(21)
Permits	5	-	-	5
Professional fees	18	21	12	51
Rehabilitation	1,072	475	122	1,669
Safety and security	479	488	804	1,771
Surveying	27	16	23	66
Transport	93	-	55	148
Net proceeds on diamond sales and diamond inventory	(5,394)	(1,856)	(1,260)	(8,510)
Write off	(2,590)	(4,570)	(3,019)	(10,179)
<b>Balance 12/31/2008</b>	\$ -	\$ -	\$ -	\$ -

**OUTSTANDING SHARE DATA**

The authorized share capital of the Company consists of an unlimited number of common shares. As at March 30, 2008, the Company had outstanding 26,091,310 common shares and stock options to purchase an aggregate of 4,153,225 common shares of the Company.

In addition, as part of the Diamond Core Acquisition, the Company agreed to issue a maximum of 1,434,502 common shares to former shareholders of Samadi Resources SA (Pty) Limited (a subsidiary of the Company which was acquired as part of the Diamond Core Acquisition) if certain profitability thresholds are met in relation to certain of Diamond Core's projects (see "Transaction with Diamond Core Resources Limited").

## RELATED PARTY TRANSACTIONS

	As at December 31, 2008		As at December 31, 2007	
<b>Balances payable</b>	<b>\$'000</b>		<b>\$'000</b>	
Macleod Dixon LLP	\$	745	\$	269
Banro Corporation		-		0
Banro Congo Mining sarl		-		0
Scallan Project Facilitation (Pty) Ltd		13		-
Sterling Portfolio Securities		11		-
	\$	769	\$	269

	For the year ended December 31,			
	2008		2007	
<b>Transactions</b>	<b>\$'000</b>		<b>\$'000</b>	
Macleod Dixon LLP <sup>(a)</sup>	\$	300	\$	561
Banro Corporation <sup>(b)</sup>		-		420
SFW Village <sup>(c)</sup>		100		80
AT Kondrat <sup>(d)</sup>		100		33
DK Madillo <sup>(e)</sup>		48		16
Scallan Project Facilitation (Pty) Ltd <sup>(f)</sup>		58		-
Sterling Portfolios		11		-
	\$	617	\$	1,110

- a) During the year ended December 31, 2008, legal fees and related costs of \$299,954 (December 31, 2007 - \$665,753) incurred in connection with general corporate matters as well as the Diamond Core acquisition were billed by a law firm of which one partner is a director and officer of the Company.
- b) Banro Corporation ("Banro") owns 3,744,032 common shares representing a 14.35% (December 31, 2007 - 27.43%) equity stake in the Company. It is engaged in the acquisition and exploration of gold properties in the DRC. During the year ended December 31, 2008, the Company incurred \$11,000 in office rental expenses for contribution to expenses for office rental (December 31, 2007 - \$419,849).
- c) Consulting fees in respect of services to the Company. Mr Village is a director of the Company and has been an officer of the Company since February 2008.
- d) Consulting fees are paid to Mr Kondrat who is a non-executive director of the Company.
- e) Consulting fees paid to Mr Madilo, who is currently an officer of the Company and was a director of the Company until February 2008.
- f) Consulting fees in respect of services to the Company prior to Mr. Scallan entering into an employment contract with the Company. Mr Scallan is now an officer and a director of the Company and is the sole shareholder of Scallan Project Facilitation (Pty) Ltd.
- g) During 2008, Sterling Portfolio Securities Inc. advanced a short term loan to the Company. The officer and director of Sterling Portfolio Securities Inc. is a non-executive director of the Company.

All amounts due to related parties are included in the balance sheet in accounts payable and accrued liabilities. These amounts are unsecured, non-interest bearing and due on demand. These transactions are in the normal course of operations and are measured at the exchange value.

## **NEW ACCOUNTING STANDARDS ADOPTED**

On January 1, 2008, the Company adopted the following CICA accounting standards which were effective for fiscal years beginning on or after October 1, 2007 and January 1, 2008. Adoption of these standards is on a prospective basis without retroactive restatement of prior periods.

### **a) General Standards of Financial Statement Presentation**

CICA Handbook Section 1400, as amended, changed the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of the entity's ability to continue as a going concern and should take into account all information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern. The adoption of this standard had no impact on the Company's presentation of its financial position or consolidated results of operations as at December 31, 2008 and for the year then ended.

The financial statements have been prepared using Canadian generally accepted accounting principles (Canadian GAAP) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

In considering the going-concern assertion, management has made significant judgments and estimates with respect to the potentially adverse financial and liquidity effects of the Company's risks and uncertainties associated with the current global economic conditions, current and future commodity prices, its ability to access capital markets, its ability to meet its future financial obligations, and the overall operation of its business segments. Management has also assessed other items and risks arising in its businesses and made reasonable judgments and estimates with respect thereto.

It is possible that the actual outcome of one or more of management's plans could be materially different or that one or more of management's significant judgments or estimates about the potential effects of the risks and uncertainties could prove materially different which may affect BRC DiamondCore's ability to continue as a going concern.

The consolidated financial statements do not reflect adjustments that would be necessary if the going-concern assumption were not appropriate. If the going-concern basis were not appropriate for the consolidated financial statements, then adjustments would be necessary to the carrying value of the assets and liabilities, the reported revenue and expenses and the balance sheet classifications used. These adjustments could be material.

### **b) Inventories**

CICA Handbook Section 3031, Inventories, replaces corresponding Section 3030 and established new standards for the measurement and disclosure of inventories. This new section requires inventories to be measured at the lower of cost and net realizable value, provides guidance on the determination of cost and requires the reversal of prior period write-downs when the net realizable value of impaired inventory subsequently recovers. The adoption of this section did not have any impact on the Company's consolidated financial statements.

### **c) Financial Instruments – Disclosure and Financial Instruments - Presentation**

CICA Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation, enhance existing disclosure requirements and require entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and performance as well as the nature and the risks arising from financial instruments and non-financial derivatives.

Comparative information about the nature and extent of risks arising from financial instruments is not required in the year Section 3862 is adopted. The adoption of these standards did not have any impact on the disclosure, classification and measurement of the Company's financial statements, because the Company is not currently exposed to risk arising from financial instruments.

The new disclosures pursuant to these new Handbook Sections are included in Note 15 to the consolidated financial statements.

#### d) Capital Disclosures

CICA Handbook Section 1535, Capital Disclosures, establishes disclosure requirements about an entity's capital objectives, policies and process for managing capital as well as compliance with any externally imposed capital requirements.

The new disclosures pursuant to this new Handbook Section are included in Note 14 to the consolidated financial statements.

The following accounting pronouncements have not yet been adopted:

#### a) Goodwill and Intangibles

In February 2008, the CICA issued accounting standard Section 3064, Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008.

The Company is currently evaluating, and has not yet determined, the impact of the adoption of this standard, if any, on its consolidated financial statements.

#### b) International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2, Inventories, and IAS 38, Intangible assets, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company is currently evaluating the impact of the adoption of IFRS on its consolidated financial statements. Diamond Core had successfully adopted IFRS prior to the acquisition thereof by the Company and currently reporting its statutory returns in South Africa in terms of IFRS. This will facilitate the adoption of IFRS. The adoption of IFRS will make it possible for the Company to re-assess the fair values of assets and liabilities on its balance sheet under IFRS 1, which could impact the balance sheet significantly if the impairment imposed needs to be reassessed.

To transition to IFRS, the Company must apply "IFRS 1 - First Time Adoption of IFRS" which set out the rules for first time adoption. In general, IFRS 1 requires an entity to comply with each IFRS effective at the reporting date for the entity's first IFRS financial statements. This requires that an entity apply IFRS to its opening IFRS balance sheet as at January 1, 2010 (i.e.: the

balance sheet prepared at the beginning of the earliest comparative period presented in the entity's first IFRS financial statements).

Within IFRS 1 there are exemptions, some of which are mandatory and some of which are elective. The exemptions provide relief for companies from certain requirements in specified areas when the cost of complying with the requirements is likely to exceed the resulting benefit to users of financial statements. IFRS 1 generally requires retrospective application of IFRSs on first-time adoptions, but prohibits such application in some areas, particularly when retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.

On transition, management must apply the mandatory exemptions and make the determination as to which elective exemptions will be made under IFRS 1. Management has completed the high level analysis of the financial statement areas and is currently reviewing the analysis to make determinations on what elections will be taken. After these decisions are made, the impact on the financial statements will be determinable.

Management continues to assess the impact that IFRS will have on the aspects of the business including accounting policy, financial reporting, information technology and communications perspective. Given that the Company is currently in the development phase, accounting policy determinations that will be made leading in the Company's production phase, such as revenue recognition, deferred stripping and diamond inventory costing to name a few examples, will be made during or post transition to IFRS. Management is also currently reviewing accounting systems and assessing the changes that will be required and the strategies that will be employed. Communication and training strategies are also being developed by management.

As Diamond Core currently prepares its local statutory financial statements under IFRS, the Company will need to assess the impact for Canada and the DRC.

#### c) Determining Whether a Contract is Routinely Denominated in a Single Currency - EIC 169

In January 2008 the CICA issued Section 3855 - Financial Instruments – Recognition and Measurement, paragraph 3855.37, requires an embedded derivative to be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. An exception is made in paragraph 3855.A34(d) for an embedded foreign currency derivative in a host contract that is not a financial instrument (such as a contract for the purchase or sale of a non-financial item where the price is denominated in a foreign currency) where the embedded derivative is not leveraged, does not contain an option feature, and requires payments denominated in "the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world (such as the US dollar for crude oil transactions)." EIC 169 supplements Section 3855 and provides guidance on how to define or apply the term "routinely denominated in commercial transactions around the world". The EIC is in effect for interim filings as of March 31, 2008.

#### d) Business Combinations/Consolidated Financial Statements/Non-Controlling Interests

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests" which superseded current sections 1581, "Business Combinations" and 1600 "Consolidated Financial Statements". These Sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these Sections before January 1, 2011, it will disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP with IFRS. The Company is currently evaluating the impact of the adoption of these changes on its consolidated financial statements.

## CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of the recoverable value of its mineral properties and related deferred exploration expenditures, goodwill, asset retirement obligations, taxes and stock-based compensation. All of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The Company's recoverability of the recorded value of its mineral properties and associated deferred exploration expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is dependent on a number of factors including environmental, legal, and political risks, the existence of economically recoverable reserves, the ability of the Company and its subsidiaries to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof. If current economic conditions continue for an extended period into the future it is possible that a future write down in good will and carrying value could occur.

Management uses its best available information to identify the point at which a development project is capitalized, assess reserves, future costs and benefits and, where considered necessary, engages qualified third-party professionals to assist in the process. Changing assumptions about future commodity prices, exchange rates, production costs and revised information on reserves may change management's recoverable amounts and depletion and amortization.

The Company's estimates of recoverability of its operating and development properties are critical, because they could have a significant impact on the balance sheet and statement of operations. The Company periodically reviews and evaluates the recoverability of property, plant and equipment based on an estimate of undiscounted future cash flows. In performing impairment tests, management must make certain estimates: future cash flows, expected commodity prices, inflation rate, future exchange rates, future operating, capital and reclamation costs, and the amount and classification of resources. Future cash flows are calculated using quoted benchmark prices in the futures market or price forecasts consistent with reputable industry forecasts or contracted prices where applicable. If any of these estimates change, future net cash flows from the property, plant and equipment could be lower which would result in impairment.

### *Goodwill Impairment*

The Company had goodwill with a carrying value of \$54.6 million; related to the acquisition of Diamond Core.

The Company tests for impairment of goodwill on an annual basis and at any other time if events occur or circumstances change that would indicate that it is more likely than not that the fair value of the reporting unit has been reduced below its carrying amount. Circumstances that could trigger an impairment test include: a significant adverse change in the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition; the loss of key personnel and adverse results of testing for recoverability of a significant asset group within a reporting unit; and the recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value is based on one or more fair-value measures including present value techniques of estimated future cash flows and a market approach for resources based on price per diamond carat estimates. In estimating the fair value of the reporting unit, the Company is also required to make a number of estimates, including estimates about future revenue, income taxes, net earnings, overhead costs, capital

expenditure, and the cost of capital. If the carrying amount of the reporting unit exceeds the fair value, step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net earnings.

At December 31, 2008, the fair value of Diamond Core, based on discounted projected cash flows, was less than the carrying value. As a result, the Company recognized an impairment of the full amount of the Diamond Core goodwill of \$54.6 million.

#### *Asset-Retirement Obligations*

The Company's operations and joint ventures are subject to environmental regulations in the DRC and South Africa.

These future obligations are estimated by taking into consideration closure plans, known environmental impacts, and internal and external studies which estimate the activities and costs that will be carried out to meet the retirement obligations. The asset-retirement cost estimates could change due to amendments in laws and regulations in the countries in which the businesses operate.

A number of assumptions and judgments are made by management in the determination of these provisions. Amounts recorded for asset-retirement obligations are based on estimates of retirement costs which may not be incurred for several years or decades. Actual estimated decommissioning and reclamation costs may differ from those projected as a result of an increase over time of actual remediation costs, a change in the timing for utilization of reserves and the potential for increasingly stringent environmental regulatory requirements.

#### *Income Taxes*

The Company estimates future income taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax basis as determined under applicable tax legislation. The Company records a valuation allowance against its future income tax assets when it believes that it is not "more likely than not" that such assets will be realized. The valuation of future tax assets and any associated valuation allowance can be affected by many factors, including: current and future economic conditions, net realizable sale prices, production rates and production costs and can either be increased or decreased where, in the view of Management, such change is warranted.

#### *Foreign Currency Translation*

The functional currency of the Company is Canadian dollars. BRC DiamondCore's businesses undertake transactions in currencies other than the Canadian dollar, including US dollars and the South African rand. As part of its ongoing review of critical accounting policies and estimates, the Company reviews the foreign currency translation method of its foreign operations to determine if there are significant changes to economic facts and circumstances that may indicate whether or not the foreign operations are largely self-sufficient and the economic exposure is more closely tied to their respective domestic currencies. Any change in translation method resulting from this review will be accounted for prospectively. The Company accounts for its South African operations as self-sustaining and for the DRC as an integrated foreign operation.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. This model requires the Company to make reasonable assumptions in order to derive parameters such as the expected volatility of the Company's shares, the expected life of the option and interest rates, all of which are based on historical information. Future behaviors of these parameters are beyond the Company's control, and thus, may be significantly different from the Company's estimates.

The values of all stock options granted were estimated, using the Black-Scholes option-pricing model, based on the following factors:

- (i) risk-free interest rate: 3.075% (2007 – 4.11% - 4.53%)
- (ii) expected volatility: 95% (2007 – 62% )
- (iii) expected life: 5 years (2007 – 5 years)
- (iv) expected dividends: \$Nil (2007 - \$Nil)

Property, plant and equipment are depreciated over their useful lives taking into account the residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may depend on a number of factors. In reassessing asset lives, factors such as technological innovation and maintenance programs are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

## **CAPITAL MANAGEMENT**

The Company's main objectives when managing its capital are:

- to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders;
- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- to safeguard the Company's ability to obtain financing should the need arise; and
- to maintain financial flexibility in order to have access to capital in the event of future acquisitions.

The Company manages its capital structure and makes adjustments to it in accordance with the objectives stated above, as well as responds to changes in economic conditions and the risk characteristics of the underlying assets.

There were no changes to the Company's approach to capital management during the year ended December 31, 2008.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## **RISKS AND UNCERTAINTIES**

The Company is subject to a number of risks and uncertainties that could significantly impact on its operations and future prospects. The following discussion pertains to certain principal risks and uncertainties but is not, by its nature, all inclusive.

The only sources of future funds for further exploration programs which are presently available to the Company (other than diamond sales as a result of the Company's bulk sampling activities) are the sale of equity capital, or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration. There is no assurance that such sources of financing will be available on acceptable terms, if at all. In the event that commercial quantities of minerals are found on the Company's properties, the Company does not have the financial resources at this time to bring a mine into production.

The current financial climate is characterized by volatile and uncertain times. The uncertainty of forward looking statements is therefore greater in the current period than previous periods. Diamond prices have reduced significantly as a result of the economic downturn compounded by the normal end of year softening of prices. This will adversely affect the Company's cash flow particularly if the depressed prices continue for a protracted period.

The Company has limited bank borrowings but it is aware that the credit crunch has limited the availability of traditional sources of project finance from banks.

All of the Company's projects are located in the DRC and South Africa. The assets and operations of the Company are therefore subject to various political, economic and other uncertainties, including, among other things, the risks of war and civil unrest, hostage taking, military repression, labor unrest, illegal mining, expropriation, nationalization, renegotiation or nullification of existing licenses, permits, approvals and contracts, taxation policies, foreign exchange and repatriation restrictions, changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favor or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Changes, if any, in mining or investment policies or shifts in political attitude in either the DRC or South Africa may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights could result in loss, reduction or expropriation of entitlements. In addition, in the event of a dispute arising from operations in the DRC or South Africa, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. The Company also may be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. It is not possible for the Company to accurately predict such developments or changes in laws or policy or to what extent any such developments or changes may have a material adverse effect on the Company's operations.

The DRC is a developing nation emerging from a period of civil war and conflict. Physical and institutional infrastructure throughout the DRC is in a debilitated condition. The DRC is in transition from a largely state controlled economy to one based on free market principles, and from a non-democratic political system with a centralized ethnic power base, to one based on more democratic principles. There can be no assurance that these changes will be effected or that the achievement of these objectives will not have material adverse consequences for the Company and its operations. The DRC continues to experience violence and significant instability in parts of the country due to certain militia and criminal elements. The recent events of violence have been a very considerable distance from the areas of interest to the Company. While the government and United Nations forces are working to support the extension of central government authority throughout the country, there can be no assurance that such efforts will be successful.

South Africa has recently experienced significant power shortages and it is expected that these shortages may be repeated in the future although adequate supply currently appears to be available. Future possible power shortages could disrupt the Company's South African operations and have a material adverse effect on the Company.

All of the Company's properties are in the exploration stage only and none of the properties contain a known body of commercial ore. The Company currently operates at a loss and does not generate any revenue from operations (other than the said diamond sales). The exploration and development of mineral deposits involve significant financial risks over a significant period of time which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. Major expenditures may be required to establish reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that the Company's exploration programs will result in a profitable commercial mining operation.

Diamond Core has concluded a number of transactions with Black Economic Empowerment ("BEE") partners in support of the South African government's policy of the empowerment of previously disadvantaged individuals and communities, through the minerals and mining industry. Additional BEE transactions are contemplated. As a result of the transactions concluded to date, a BEE entity holds different equity interests ranging from 15% to 50% interests in a number of the Company's South African projects. The approval of the BEE entity is required with respect to certain key business decisions in relation to the relevant project. Disputes between the Company and a BEE entity could therefore interfere with the Company's ability to conduct one or more of its projects in South Africa, which could have a material adverse effect on the Company.

The Company is exposed to currency risk as its principal business is conducted in foreign currencies. Unfavorable changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gains or losses. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company's exploration and, if such exploration is successful, development of its properties is subject to all of the hazards and risks normally incident to mineral exploration and development, any of which could result in damage to life or property, environmental damage and possible legal liability for any or all damage.

The natural resource industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a. Fair value of financial instruments

The Company has classified financial instruments as follows:

	Year ended December 31, 2008	Year ended December 31, 2007
<u>Financial assets</u>		
Held-for-trading, measured at fair value		
Cash	\$ <b>198,085</b>	\$ 931,845
Restricted Cash	<b>308,014</b>	-
Loans and receivables, measured at amortised cost		
Other assets	<b>562,144</b>	402,652
<u>Financial liabilities</u>		
Other liabilities, measured at amortised cost		
Accounts payable and accrued liabilities	\$ <b>7,542,084</b>	\$ 2,599,292
Debt	<b>\$ 6,172,317</b>	\$ 3,022,899
Lease	<b>\$ 499,484</b>	\$ -

### b. Allowance account for credit losses

	<b>Year ended December 31, 2008</b>	Year ended December 31, 2007
Accounts receivable	\$ -	\$ -
Allowance for doubtful accounts	-	-
Other	-	- 403
	<b>\$ -</b>	<b>\$ 403</b>

Allowance for credit losses is included in prepaid expenses and other receivables.

*c. Fair value of financial instruments*

The balance sheet carrying amounts for cash, restricted cash and other assets, accounts payable, debt and other liabilities approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

*d. Risk management policies and hedging activities*

The Company is sensitive to changes in commodity prices, foreign exchange and interest rates. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Although the Company has the ability to address its price-related exposures through the use of options, futures and forward contracts, it does not generally enter into such arrangements. Similarly, derivative financial instruments are not used to reduce these financial risks.

*Credit risk*

Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash. Cash is maintained with several financial institutions of reputable credit and may be redeemed upon demand. It is therefore the Company's opinion that such credit risk is subject to normal industry risks and is considered minimal.

*Liquidity risk*

Liquidity risk arises from the Company's financial obligations and in the management of its assets, liabilities and optimal capital structure. The Company manages this risk by regularly evaluating its liquid financial resources to fund its current and long term obligations and to meet its capital commitments in a cost effective manner. The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, future capital expenditure requirements, scheduled repayments of long-term debt obligations, the Company's credit capacity and expected future debt and equity capital market conditions.

The Company's liquidity requirements are met through a variety of sources, including: cash on hand, cash generated from operations, existing credit facilities, leases, and debt and equity markets.

Weakening global economic conditions have led to a significant weakness in exchange traded commodity prices in recent months, including diamond prices. In general, credit market conditions have increased the cost of obtaining capital and limited the availability of funds.

Given the Company's financial position, available credit facilities and the fact that there are scheduled maturities on its debt in 2008, the Company currently expects a need to access debt and equity markets for financing over the next twelve months. However, because the duration of the general economic uncertainty and its detrimental effect on credit and capital markets is unknown, it is difficult to determine the long-term impact on the Company.

In light of current market conditions, the Company has initiated a series of measures to bring its spending in line with the projected cash flows from its operations and available project specific facilities in order to preserve its balance sheet and maintain its liquidity position, as well as selling non-core assets.

Management currently believes that based on its financial position and liquidity profile at December 31, 2008, the Company will be able to satisfy its current and long-term obligations. As at December 31, 2008, the consolidated financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern (see note 1 to the financial statements).

#### *Currency risk*

The Company is exposed to currency risk as its principal business is conducted in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated from US dollars and South African rands into Canadian dollars. Unfavourable changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gains or losses. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

For the year ended December 31, 2008, everything else being equal, a 5% increase or decrease in the exchange rate between the Canadian dollar, the South African rand and the US dollar would have resulted in a respective \$2,273,915 decrease and increase in the Company's net loss.

#### *Interest rate risk*

Interest rate risk is the potential impact on the Company's earnings due to changes in bank lending rates and short term deposit rates.

The Company's exposure to interest rate risk is as follows:

Cash	Variable interest rate
Other assets	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing/variable interest rate
Short term debt	Variable interest rate

The Company believes that the interest rates prevailing in Canada should not significantly increase in 2009 and estimates that its interest rate risk exposure will diminish in future years.

#### *Market risk*

Market risk is the risk that the value of a financial instrument might be adversely affected by a change in commodity prices, interest rates or currency exchange rates. The Company manages the market risk associated with commodity prices by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

#### *Title risk*

Title to mineral properties and mining rights involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. Although the Company has investigated title to all of its mineral properties for which it holds concessions or other mineral leases or licenses, the Company cannot give any assurance that

title to such properties will not be challenged or impugned and cannot be certain that it will have valid title to its mining properties. The Company relies on title opinions by legal counsel who base such opinions on the laws of countries in which the Company operates.

#### *Country risk*

The DRC is a developing country and as such, the Company's exploration projects in the DRC could be adversely effected by uncertain political or economic environments, war, civil or other disturbances, and a changing fiscal regime and by DRC's underdeveloped industrial and economic infrastructure.

The Company's operations in the DRC may be effected by economic pressures on the DRC. Any changes to regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. Operations may be affected in varying degrees by such factors as DRC government regulations with respect to currency conversion, production, price controls, export controls, income taxes or reinvestment credits, expropriation of property, environmental legislation, land use, water use and mine safety.

There can be no assurance that policies towards foreign investment and profit repatriation will continue or that a change in economic conditions will not result in a change in the policies of the DRC government or the imposition of more stringent foreign investment restrictions. Such changes cannot be accurately predicted.

### **SEGMENTED INFORMATION**

The Company's reportable segments have been determined at the level where decisions are made on the allocation of resources and capital, and where internal financial statements are available, which is essentially the different geographic regions. The South African segment comprises the exploration, development, mining, processing and marketing of its diamonds in South Africa. The DRC segment represents the Company's exploration activities in the DRC. The Corporate segment comprises its general corporate activities.

As the South African operations are in the development stage, all the direct costs incurred for projects that initialised bulk sampling activities are capitalized, and revenue earned from the sale of diamonds reduce the deferred capitalized costs. For the DRC, its exploration costs are capitalized. Canadian corporate costs are expensed to the statement of operations and deficit. Further discrete segment information is provided in Note 9 in the Financial Statements.

The Company carries on business in the following geographic areas:

<b>2008</b>	<b>Group \$</b>	<b>Canada \$</b>	<b>DRC \$</b>	<b>South Africa \$</b>
Net operating loss	\$ 103,055,588	\$ 60,018,696	\$ 14,189,252	\$ 29,378,02
Finance income	(101,954)	(33)	-	(101,920)
Finance expense	48,015	6,754	-	41,262
Net loss	103,001,648	60,025,417	14,189,251	29,317,361
Assets and liabilities				
Segment assets	19,112,324	177,765	6,354,163	12,580,396
Segment liabilities	16,547,090	10,005,270	538,851	6,402,259
Other Segment information				
Depreciation	\$104,205	\$ -	\$-	\$104,205

<b>2007</b>	<b>Group \$</b>	<b>Canada\$</b>	<b>DRC \$</b>
Net operating loss	\$1,809,992	\$1,809,992	\$ -
Finance income	-	-	-
Finance expense	22,899	22,899	-
Income Tax expense	-	-	-
Net loss	1,832,891	1,832,891	-
Segment assets	14,188,659	-	14,188,659
Segment liabilities	5,622,191	5,170,880	451,311

## **SUBSEQUENT EVENTS**

As a result of the continued depressed state of the diamond market with diamond prices at a level such that operating costs would exceed expected revenue, the Company has placed all its South African operations on a care and maintenance basis. It has consequently retrenched all employees of its South African operations. This process is expected to be concluded by April 11, 2009. The Company will restructure itself by selling off non-core assets and seeks to enter into a business combination with a partner with whom the South African mining assets of the Company can be developed at an appropriate time and manner when diamond prices have recovered sufficiently to restore profitable operations.

The application by the Company's subsidiary, Samadi Resources (SA) (Pty) Ltd, in the High Court (South Gauteng Provincial Division) for a declarator against its former BEE partner Sefalana Mineral Resources (Pty) Ltd was refused on March 27, 2009. The judgment did not interfere with the current shareholder structure, has no effect on the Company financially and no effect on its current mining order rights. The application was brought in order to dispose of any uncertainty regarding the annulment of the BEE agreements between Samadi and Sefalana. Samadi remains committed to its current BEE shareholder Leswika Resources (Pty) Ltd and will oppose any attempt by Sefalana to rely on the Court's refusal to issue a declarator in favour of Samadi. Samadi has been advised by its legal representatives that there are good grounds for an appeal and will shortly file a notice appealing the judgment.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Company's President and Vice President, Finance have limited the scope of their design of disclosure controls and procedures to exclude controls, policies and procedures of Diamond Core.

Subject to the above scope limitation, disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Vice President, Finance, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at December 31, 2008, management of the Company, with the participation of the President and Vice President, Finance, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Vice President, Finance have concluded that, as of December 31, 2008, the disclosure controls and procedures were effective. No material weaknesses have been identified.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's President and Vice President, Finance have limited the scope of their design of internal control over financial reporting to exclude controls, policies and procedures of Diamond Core.

Subject to the above scope limitation, internal controls have been designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements together with the other financial information for external purposes in accordance with Canadian GAAP. As at December 31, 2008, the Company's President and Vice President, Finance evaluated or caused to be evaluated under their supervision the effectiveness of the Company's internal control over financial reporting. Based on that evaluation, the President and Vice President, Finance have concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective. No material weaknesses have been identified.

The Company is required under Canadian securities laws to disclose herein any change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No changes were identified in the Company's internal control over financial reporting during the quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objective of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

The summary financial results of Diamond Core which was acquired by the Company in 2008 are presented below. The dominant feature of the acquired company is its \$29.4 million loss from time of acquisition at the beginning of February 2008 to the year end at December 31, 2008.

2008	
Net operating loss	\$ 29,378,020
Finance income	(101,920)
Finance expense	41,261
Net loss	29,317,361
Assets	12,580,396
Liabilities	6,402,259
Depreciation	\$ 104,205