



BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009**
(expressed in Canadian dollars)
(unaudited)

NOTICE TO READER

These interim consolidated financial statements of BRC DiamondCore Ltd. as at and for the three and six month periods ended June 30, 2009 have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

These interim consolidated financial statements have not been audited or reviewed by the Company's auditors.

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BRC DiamondCore Ltd.
(formerly BRC Diamond Corporation)
Consolidated Balance Sheets (unaudited)
(expresses in Canadian dollars)

	As at June 30, 2009 \$'000	As at December 31, 2008 \$'000
ASSETS		
CURRENT		
Cash	\$ 171	\$ 198
Prepaid expenses and other assets	561	562
Inventory (Note 4)	141	122
	<u>873</u>	<u>882</u>
NON CURRENT		
Restricted cash (Note 2)	248	308
Mineral properties and deferred exploration expenditures (Note 9)	10,731	9,075
Capital assets (Note 10)	6,714	8,847
	<u>17,693</u>	<u>18,230</u>
	<u>\$ 18,566</u>	<u>\$ 19,112</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 5 and 7)	\$ 9,351	\$ 7,542
Other liabilities	235	201
Debt (Note 6)	6,280	6,172
	<u>15,866</u>	<u>13,915</u>
NON-CURRENT		
Asset retirement obligations (Note 8)	2,421	2,132
Long term lease (Note 7)	639	499
	<u>3,061</u>	<u>2,631</u>
Going concern (Note 1)		
Commitments, contingencies and guarantees (Note 12)		
SHAREHOLDERS' EQUITY		
Capital stock (Note 11)	105,815	105,815
Contributed surplus (Notes 11(b) and (e))	7,385	6,934
Black economic empowerment reserve	1,076	1,076
Deficit	(112,435)	(108,891)
Accumulated other comprehensive loss (Note 11(f))	(2,202)	(2,370)
	<u>(360)</u>	<u>2,565</u>
	<u>\$ 18,566</u>	<u>\$ 19,112</u>

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

BRC DiamondCore Ltd.
(formerly BRC Diamond Corporation)
Consolidated Statements of Operations and Deficit (unaudited)
(expresses in Canadian dollars)

	For the three month period ended		For the six month period ended	
	June 30, 2009 \$'000	June 30, 2008 \$'000	June 30, 2009 \$'000	June 30, 2008 \$'000
Expenses				
Consulting fees	\$ 329	\$ 113	\$ 398	\$ 163
Depreciation	930	-	1,640	-
Professional fees	147	(53)	196	-
General and administrative	765	910	1,554	1,243
Stock-based compensation (Note 11(b))	51	-	316	-
Loss on sale of assets	71	-	53	-
Foreign exchange gain realized	-	(1)	-	(15)
Regulatory expenses	1	60	1	250
Foreign exchange (gain)/loss unrealized	(155)	79	(637)	2,873
Loss before the under noted items	(2,139)	(1,108)	(3,522)	(4,514)
Interest income	77	5	19	32
Interest expense	-	(90)	(41)	(149)
Loss before income tax	(2,062)	(1,193)	(3,544)	(4,631)
Income taxes	-	-	-	-
Net loss for the period	(2,062)	(1,193)	(3,544)	(4,631)
Deficit - beginning of the period	(110,373)	(9,327)	(108,891)	(5,889)
Deficit - end of the period	\$ (112,435)	\$ (10,520)	\$ (112,435)	\$ (10,520)
Basic and diluted loss expressed in dollars per share (Note 11(d))	\$ 0.08	\$ 0.05	\$ 0.14	\$ 0.20
Weighted average number of common shares outstanding	26,091,310	25,741,310	26,091,310	23,040,000

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 (Income) (unaudited)

(expressed in Canadian dollars)

	For the three month period ended		For the six month period ended	
	June 30, 2009 \$'000	June 30, 2008 \$'000	June 30, 2009 \$'000	June 30, 2008 \$'000
Net loss	\$ 2,061	\$ 1,193	\$ 3,544	\$ 4,631
Unrealized foreign currency (gain)/loss on self sustaining operation	(2,353)	-	(168)	-
Comprehensive loss/ (income)	\$ (292)	\$ 1,193	\$ 3,376	\$ 4,631

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 Flow (unaudited)

(expressed in Canadian dollars)

Net (outflow) inflow of cash related to the following activities	For the three month period ended		For the six month period ended	
	June 30,	June 30,	June 30,	June 30,
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Operating				
Net loss for the period	\$ (2,061)	\$ (1,193)	\$ (3,544)	\$ (4,631)
Items not effecting cash				
Depreciation	1,032	89	1,743	89
Asset retirement obligation	(104)	490	290	490
Other provisions	-	99	-	99
Stock based compensation and stock based consulting fees	185	108	450	356
Unrealized foreign exchange loss	-	227	-	(3,084)
Profit on sale of fixed assets	71	-	53	-
Net change in non-cash working capital items	\$ (877)	\$ (180)	\$ 1,008	\$ (6,681)
Unrealised foreign currency gain relating to balance sheet	2,353	-	168	-
Tax paid	-	(127)	-	(147)
Prepaid expenses and other assets	(405)	(26)	2	515
Accounts payable and accrued liabilities	1,109	553	1,842	(949)
Inventory	(20)	511	(19)	890
	\$ 2,160	\$ 731	\$ 984	\$ (6,372)
Investing				
Cash balances acquired from Diamond Core Mineral properties and deferred exploration expenditures	-	-	-	2,308
Capital assets	(1,624)	147	(1,656)	148
	(618)	(3,768)	338	2,927
	\$ (2,242)	\$ (3,621)	\$ (1,318)	\$ 5,383
Financing				
Increase in short term debt	34	2,307	248	1,675
	\$ 34	\$ 2,307	\$ 248	\$ 1,675
Increase/(decrease) in cash during the period	(62)	(583)	(27)	686
Effect of currency on cash	(13)	-	60	-
Cash – beginning of the period	233	2,201	198	932
Cash – end of the period	\$ 171	\$ 1,618	\$ 171	\$ 1,618

BRC DiamondCore Ltd.

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Consolidated Statement of Cash Flow (unaudited)

(expressed in Canadian dollars)

Net (outflow) inflow of cash related to the following activities	For the three month period ended		For the six month period ended	
	June 30, 2009 \$'000	June 30, 2008 \$'000	June 30, 2009 \$'000	June 30, 2008 \$'000
SUPPLEMENTARY INFORMATION				
Interest received	\$ 8	\$ 5	\$ 19	\$ 32
Interest paid	-	90	-	149

GOING CONCERN (Note 1)

Depreciation of capital assets of \$61,454 and \$102,454 was capitalized to mineral properties in the respective three month and six month periods ended June 30, 2009 (June 30, 2008: \$631,000 and \$ 1,143,000).

During the six month period ended June 30, 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.

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Notes to the Consolidated Financial Statements (unaudited)

June 30, 2009 (expressed in Canadian dollars)

1. PRINCIPAL BUSINESS ACTIVITIES AND CONTINUATION OF THE BUSINESS

The principal business of BRC DiamondCore Ltd. (the “Company”) is the acquisition, exploration and eventual development of mineral properties.

These financial statements of the Company 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 \$2,061,000 and \$3,544,172 during the three and six month periods ended June 30, 2009 (losses of \$ 1,193,000 and \$4,631,000 during the same respective periods in 2008) and also in recent past periods. The Company’s accumulated deficit as at June 30, 2009 was \$112,434,739 (December 31, 2008: \$108,890,567). The Company had a working capital deficit of \$14,992,785 as at June 30, 2009 (December 31, 2008: \$13,033,000). 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 or business units 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.

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 the Company’s ability to continue as a going concern.

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. If the going-concern basis were not appropriate for these financial

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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.

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 as part of 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 Gembok (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

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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.

(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 methods.

(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 (Income).

(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:

Financial instrument	Classification	Measurement
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

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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.

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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 impaired the entire amount of goodwill that arose on the acquisition of Diamond Core in 2008 (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.

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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 \$248,293 is held by various financial institutions as security for guarantees the Company has provided to the Department of Minerals and Energy Affairs in South Africa 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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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 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 period. Exchange gains and losses that result from the translation are deferred and disclosed as a component of "accumulated other comprehensive loss (income)". 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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New Accounting Standards

a) Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted CICA Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other 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. The adoption of this new standard did not have a significant impact on the financial statements.

b) Mining Exploration Costs

In March 2009, the CICA issued EIC-174, Mining Exploration Costs, to provide additional guidance for mining exploration enterprises on when an impairment test is required. This new Abstract replaces EIC-126, Accounting by Mining Enterprises for Exploration Costs. The Abstract states that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and did not have a significant impact on the valuation of exploration assets.

c) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the first quarter of 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of financial assets or liabilities.

Future Accounting Standards

a) 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 (see Note 3) and is 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

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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.

b) 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.

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3. ACQUISITION OF DIAMOND CORE RESOURCES LIMITED

In July 2007, the Company and Diamond Core Resources Limited (which has changed its name to Diamond Core Resources (Proprietary) Limited) (“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 common shares of the Company. Under the scheme, each Diamond Core shareholder was entitled to receive one share of the Company 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 shares of the Company 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 common shares of the Company in substitution for the Diamond Core ordinary shares, with the number of shares of the Company issuable to such shareholders adjusted to reflect the exchange ratio applicable under the terms of the scheme. Accordingly, the number of shares of the Company 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 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.

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 the Company (the “Replacement Options”), so as to allow holders of Old Options to acquire the number of common shares of the Company 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 shares of the Company, 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 in expenses were incurred in 2008 and are included in the purchase price equation below.

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Allocation of Purchase Price

Based on the Company's average closing price of \$7.40 per share, calculated with reference to the share price around July 5, 2007 (date of announcement), the Company 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 the Company 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 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.

	\$'000
Issuance of 12,089,678 common shares of the Company	89,464
Issuance of Replacement Options	2,477
Transaction costs	2,407
Purchase price	94,348

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

	\$'000
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
Fair value of net assets acquired	\$94,348

The consideration and transaction costs of \$94,347,641 exceeded the carrying value of the net assets acquired by \$54,558,329 which was 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, for the year ended December 31, 2008 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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4. INVENTORY

	June 30, 2009 \$'000	December 31, 2008 \$'000
Consumables	\$ 141	\$ 122
	<u>\$ 141</u>	<u>\$ 122</u>

5. RELATED PARTY TRANSACTIONS

Balances Payable	June 30, 2009 \$'000	December 31, 2008 \$'000
Macleod Dixon LLP	\$ 798	\$ 745
SFW Village	138	-
AT Kondrat	50	-
DK Madilo	24	-
Scallan Project Facilitation (Pty) Ltd ^(f)	2	13
Sterling Portfolio Securities Inc. ^(g)	101	11
	<u>1,113</u>	<u>769</u>

Transactions	For the three month period ended		For the six month period ended	
	June 30, 2009 \$'000	June 30, 2008 \$'000	June 30, 2009 \$'000	June 30, 2008 \$'000
Macleod Dixon LLP ^(a)	\$ 72	\$ 30	\$ 120	\$ 189
Banro Corporation ^(b)	-	(99)	-	(11)
SFW Village ^(c)	67	25	138	50
AT Kondrat ^(d)	25	21	50	42
DK Madilo ^(e)	12	10	24	20
Sterling Portfolio Securities Inc.	20	-	90	-
	<u>\$ 196</u>	<u>\$ (13)</u>	<u>\$ 422</u>	<u>\$ 290</u>

- a) During the three and six month periods ended June 30, 2009, legal fees and related costs of \$72,140 and \$119,993 (June 30, 2008: \$30,000 and \$ 189,000) incurred in connection with general corporate matters were billed by a law firm of which one partner is a director and officer of the Company.

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- b) Banro Corporation (“Banro”) owns 3,744,032 common shares representing a 14.35% (December 31, 2008: 14.35%) equity stake in the Company. It is engaged in the acquisition and exploration of gold properties in the DRC. During the three and six month periods ended June 30, 2009, the Company incurred \$nil and \$nil in general and office related expenses for net contribution to these expenses (June 30, 2008: \$99,000 and \$11,000).
- c) Consulting fees in respect of services to the Company as well as a short term advance to the Company. Mr. Village is a director and an officer of the Company.
- d) Consulting fees are paid to Mr. Kondrat who is a non-executive director of the Company.
- e) Consulting fees are paid to Mr. Madilo, who is an officer of the Company.
- 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 was the sole shareholder of Scallan Project Facilitation (Pty) Ltd.
- g) During 2008 and 2009, 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.

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 six month period ended June 30, 2009 was 2.00% (December 31, 2008: 5.75%). At June 30, 2009, the balance of this short term debt was \$6,280,133 (December 31, 2008: \$6,172,317), including accrued interest of \$420,727 (December 31, 2008: \$307,872). This loan facility has been utilized to fund exploration activities in the DRC and all interest of \$420,727 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 June 30, 2009 \$'000	As at December 31, 2008 \$'000
Total lease liability	\$ 740	\$ 649
Less: Current portion included in accounts payable and accrued liabilities	(101)	(150)
	<u>\$ 639</u>	<u>\$ 499</u>

This liability is secured by a finance lease over vehicles with a carrying amount of \$62,125 and earthmoving equipment with a carrying amount of \$469,092. The leases are payable in monthly installments that varies and the final dates of repayment are on October 1, 2013 and October 1, 2012. The applicable interest rate is 15.86%,

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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.

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 June 30, 2009 \$'000	As at December 31, 2008 \$'000
Balance at beginning of period	\$ 2,132	\$ -
Changes during the period	-	2,132
Reclamation obligation recognized	-	-
Accretion expense	-	-
Foreign exchange revaluation	289	-
Balance at end of period	\$2,421	\$ 2,132

The estimated amount of reclamation costs at June 30, 2009, is \$698,625 for the Paardeberg East project, \$1,068,999 for the Silverstreams project and \$17,867 for the De Kalk project. The estimated amount for the dismantling of the processing plants at Paardeberg East is \$283,115 and at Silverstreams is \$352,752.

The Company had cash reclamation deposits totaling \$248,293 (December 31, 2008: \$235,504) 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 9.5% to 10%.

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 Minerals and Energy (South Africa) 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.

9. MINERAL PROPERTIES

In order to focus the exploration programme in the DRC on the most promising areas, a number of exploration licences were relinquished during the first quarter of 2009 with a high degree of confidence. No new applications were lodged during the first six months of 2009.

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During the first quarter of 2009 the following exploration licences in the DRC were relinquished: Acacia (5), the Company (4), Candore (5), BCM (1), Caspian Oil and Gas (9), Kwango Mines (3), Coexco (44). The Company will keep its focus on the following exploration licences which are held by the Company directly or by partners through various option agreements: Acacia (6), BCE (16), the Company (2), Caspian Oil & Gas (2), Groupe Abba (1), King's Mine (1) and IEL (2). No DRC exploration licences were relinquished in the second quarter of 2009.

As at June 30, 2009, the Company's South African subsidiaries held title to two mining rights and nine 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.

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, De Kalk and Uitdraai RE of Portion 1 projects) other than Samadi Gemsbok Resources (Pty) Limited (the "Samadi Subsidiaries"). 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 Samadi Subsidiaries. Sefalana is disputing this. In 2008, Sefalana was replaced by Leswika Resources (Pty) Limited ("Leswika"). Leswika holds 15% of the issued share capital of the Samadi Subsidiaries. The agreement further allows Leswika to attain an additional 11% of the shareholding at fair market value.

Prior to the Company's old order mining license over the Paardeberg East project expiring in the second quarter of 2009, the Company applied for the conversion of the old order right to a new order right. The Company has agreed with its existing BEE partner on certain of its other projects, namely Leswika, to be its BEE partner in relation to the Paardeberg East project. The application also included 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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The Company has incurred deferred exploration expenditures and mineral property costs, in the DRC and in South Africa as at June 30, 2009 as follows:

Group

	Cumulative from inception in 1990 to June 30, 2009 \$'000	Year ended December 31, 2008 \$'000	Six month period ended June 30, 2009 \$'000
Mineral property costs			
Canada	\$ -	\$ -	\$ -
DRC	3	-	-
South Africa	3,562	3,512	-
	<u>3,565</u>	<u>3,512</u>	<u>-</u>
Deferred exploration expenditures			
DRC	7,166	(8,625)	1,605
South Africa	-	-	-
	<u>7,166</u>	<u>(8,625)</u>	<u>1,605</u>
Total mineral properties and deferred exploration expenditures	\$ 10,731	\$ (5,113)	1,605

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DRC

	Cumulative from inception in 1990 to June 30, 2009 \$'000	Year ended December 31, 2008 \$'000	Six month period ended June 30, 2009 \$'000
Mineral property costs			
Claims and staking	\$ 3	\$ -	\$ -
Total mineral property costs	3	-	-
Deferred exploration expenditures			
Administrative and office support	4,983	1,719	437
Depreciation	644	259	102
Drilling	502	90	16
Field camp expenses	3,026	1,397	204
Geochemistry	329	-	-
Geology – contract geologists	1,601	-	-
Geophysics	2,370	268	-
Option fees	308	-	-
Permits and surface taxes	1,870	523	21
Professional fees	666	462	52
Profit on sale of assets	(50)	-	(50)
Remote sensing and surveying	47	-	-
Stock-based compensation	2,123	945	134
Transport cost and helicopter	3,261	877	37
Unrealised foreign exchange	2,270	1,623	651
difference			
Write off	(16,788)	(16,788)	-
Total deferred exploration expenditures	7,166	(8,625)	1,605
Total mineral properties and deferred exploration expenditures	\$ 7,169	\$ (8,625)	\$ 1,605

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South Africa

	Cumulative from inception in 1990 to June 30, 2009 \$'000	Year ended December 31, 2008 \$'000	Six month period ended June 30, 2009 \$'000
Mineral property costs			
Acquisition of Diamond Core	\$ 13,152	\$ 13,203	-
Write off	(9,640)	(9,640)	-
Total mineral property costs	3,512	3,563	-
Deferred exploration expenditures			
Acquisition of Diamond Core	6,505	6,505	-
Administrative and office support	2,002	2,002	-
Depreciation	2,345	2,345	-
Field camp expenses	6,538	6,538	-
Geology – contract geologists	100	100	-
Geophysics	26	26	-
Insurance	112	112	-
Inventory losses	(21)	(21)	-
Permits and surface taxes	5	5	-
Professional fees	51	51	-
Rehabilitation	1,670	1,670	-
Security	1,771	1,771	-
Surveying	66	66	-
Transport cost	149	149	-
Unrealised foreign exchange difference	(2,666)	(2,666)	-
	18,655	18,655	-
Net proceeds on diamond sales	(8,475)	(8,475)	-
Write off	(10,179)	(10,179)	-
Total mineral properties and deferred exploration expenditures	\$ 3,512	\$ 3,563	-

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10. CAPITAL ASSETS

	As at June 30, 2009			
	Cost	Accumulated	Accumulated	Net Book
	\$'000	Depreciation	Impairment	Value
	\$'000	\$'000	\$'000	\$'000
Computer equipment	\$ 326	\$ 162	\$ -	\$ 164
Earthmoving equipment	4,705	1,523	761	2,421
Exploration and mining assets	393	230	43	120
Furniture and Office equipment	114	28	11	75
Land and buildings	354	67	-	287
Leasehold improvements	225	225	-	-
Processing plant	12,665	2,238	6,935	3,491
Vehicles	409	253	-	156
	<u>\$ 19,192</u>	<u>\$ 4,727</u>	<u>\$ 7,751</u>	<u>\$ 6,714</u>

	As at December 31, 2008			
	Cost	Accumulated	Impairment	Net Book
	\$'000	Depreciation	\$'000	Value
	\$'000	\$'000	\$'000	\$'000
Computer equipment	\$ 294	\$ 103	\$ -	\$ 191
Earthmoving equipment	5,753	1,398	645	3,711
Exploration and mining assets	458	196	35	227
Furniture and Office equipment	100	17	10	73
Land and buildings	539	43	-	496
Leasehold improvements	227	226	-	1
Processing plant	11,180	1,248	6,105	3,827
Vehicles	711	390	1	320
	<u>\$ 19,263</u>	<u>\$ 3,619</u>	<u>\$ 6,796</u>	<u>\$ 8,847</u>

During the three and six month periods ended June 30, 2009, \$61,454 and \$102,454, respectively, of depreciation was included in mineral properties and deferred exploration expenditures (see Note 9) (June 30, 2008: \$ 631,000 and \$1,143,000).

11. CAPITAL STOCK

a) Share capital

	Number of shares '000	Amounts \$'000
Balance, December 31, 2007	13,652	\$15,827
Shares issued for cash	350	525
Shares issued for the acquisition of Diamond Core	12,089	89,464
Balance, December 31, 2008	<u>26,091</u>	<u>105,815</u>
Balance, June 30, 2009	26,091	\$105,815

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On June 30, 2009, the authorized share capital of the Company is comprised of an unlimited number of common shares.

On February 11, 2008, the Company acquired all of the outstanding shares of Diamond Core on the basis of 1 share of the Company 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 Toronto Stock Exchange 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 June 30, 2009, the Company had outstanding under the stock option plan stock options to acquire 3,041,400 (December 31, 2008: 3,846,400) common shares of the Company at a weighted-average price of \$ 2.10 (December 31, 2008: \$2.16) per share.

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11. CAPITAL STOCK - continued

The following table summarizes information about stock options outstanding and exercisable at June 30, 2009:

Date of Grant	Number outstanding at 12/31/2008	Options granted during the period	Options Exercised, Expired or Forfeited	Number outstanding at 06/30/09	Options Exercisable at 06/30/09	Exercise price	Fair value date of grant	Expiry Date
04/14/04	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	-	50,000	180,000	180,000	\$ 8.00	\$ 2.85	08/03/12
08/28/08	2,365,000	-	520,000	1,845,000	922,500	\$ 1.05	\$ 0.77	08/28/13
	3,821,400	-	780,000	3,041,400	2,118,900			

During the three and six month periods ended June 30, 2009, the Company recognized in the statement of operations as stock-based compensation expense \$265,557 and \$ 450,610, respectively, (June 30,2008: \$nil and \$nil) representing the fair value of stock options previously granted to employees, directors and officers under the Company's stock option plan. These amounts were credited accordingly to contributed surplus in the balance sheet. The stock compensation expense excludes any cost attributable to employees after the date of retrenchment.

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: 2009: 3.075%
- (ii) expected volatility: 2009: 95%
- (iii) expected life: 2009: 5 years
- (iv) expected dividends: 2009 - \$Nil

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 the Company (the "Replacement Options"), so

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as to allow holders of Old Options to acquire the number of common shares of the Company 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 shares of the Company, 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 June 30, 2009, 349,510 of these options had been cancelled.

d) *Loss per share*

The loss per share figures for the three and six month periods ended June 30, 2009 are calculated using the weighted average number of shares outstanding during the respective accounting periods amounting to 26,091,310 and 26,091,310 common shares, respectively, (June 30, 2008: 25,741,000 and 23,040,000 respectively). The calculations of basic and diluted loss per share amounts are identical. All common share options were excluded from the calculation of diluted loss per share as their effect would have been anti-dilutive.

e) *Contributed Surplus*

	June 30, 2009 \$'000	December 31, 2008 \$'000
Balance, beginning of the period	\$ 6,934	\$ 2,757
Options granted	451	1,700
Balance, end of the period	\$ 7,385	\$ 6,934

f) *Accumulated other comprehensive income*

	June 30, 2009	December 31, 2008
Balance, beginning of the period	\$ (2,370)	\$ -
Unrealized foreign currency profit/(loss) on self sustaining foreign operation in South Africa	168	(2,370)
Balance, end of the period	\$ (2,202)	\$ (2,370)

12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company is committed to the payment of certain surface fees and taxes in the DRC. 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 exploration licences in good standing.

In addition, as at June 30, 2009, the Company had a bank guarantee of US\$4,373 (December 31, 2008: \$4,373) with respect to expenses related to a mitigation and rehabilitation plan required from holders of exploration licences under the DRC Mining Code.

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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") (see note 9). 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. Sefalana is disputing Samadi Resources' position.

Samadi Resources had made application in the High Court (South Gauteng Provincial Division) for a declarator against Sefalana but this 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 Resources and Sefalana. Samadi Resources 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 Resources. Samadi Resources has been advised by its legal representatives that there are good grounds for an appeal and has consequently filed a notice to appeal the judgment.

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.

The Company is 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 is vigorously defending these actions.

The following contractual obligations exist at June 30, 2009:

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	Total	< 1 year	1 – 3 years
Purchase Obligations	\$ 237,394	\$ 237,394	\$ nil
Operating lease commitments	\$ 73,394	\$ 63,365	\$ 9,833

13. 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 six month period ended June 30, 2009.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Fair value of financial instruments

The Company has classified financial instruments as follows:

	June 30, 2009 \$'000	December 31, 2008 \$'000
<u>Financial assets</u>		
Held-for-trading, measured at fair value		
Cash	\$ 171	\$ 198
Restricted Cash	248	308
Loans and receivables, measured at amortised cost		
Other assets	561	562
<u>Financial liabilities</u>		
Other liabilities, measured at amortised cost		
Accounts payable and accrued liabilities	\$ 9,351	\$ 7,542
Debt	\$ 6,280	\$ 6,172
Lease	\$ 639	\$ 499

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b. Allowance account for credit losses

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Accounts receivable	\$ -	\$ -
Allowance for doubtful accounts	-	-
Other	-	-
	<u>\$ -</u>	<u>\$ -</u>

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, asset sales, 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.

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Given the Company's financial position, available credit facilities and the fact that there are scheduled maturities on its debt the Company expects a need to access debt and equity markets for financing over the next twelve month period. 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 June 30, 2009, the Company will be able to satisfy its current and long-term obligations. As at June 30, 2009, 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 rand 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 three and six month periods ended June 30, 2009, 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 \$91,574 and \$145,318 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.

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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.

15. SUBSEQUENT EVENTS

The Company has entered into a heads of agreement with KIG Mining PLC ("KIG") for the sale of the Company's South African alluvial assets for a sum of US \$10.7 million in cash and shares in KIG (reference is made to the Company's July 3, 2009 press release). The transaction is still subject to the completion of a full agreement and the fulfillment of various regulatory requirements. As well, the ability to complete this transaction may be adversely affected by the outcome of the appeal of the liquidation order against Diamond Core (see below).

On July 3, 2009 Diamond Core (which is the holding company for all of the Company's South African assets) was the subject of a final liquidation order by the Northern Cape High Court in South Africa. The application for the liquidation of Diamond Core was initiated by River Corporate Finance (Pty) Ltd, which was the exclusive adviser to Diamond Core on the transaction with the Company (see Note 3). The liquidation application was based on a claim in respect of the balance allegedly owing on a success fee of US \$1million. Diamond Core disputed the claim based on performance and has sued River Corporate Finance for the return of the R2 million of this fee already paid. Provisional liquidators have been appointed but while the appeal is being processed the liquidators may only secure the assets and no disposal or sale is possible without the approval of the shareholders (i.e. the Company).

An application for leave to appeal the liquidation order has been lodged with the Northern Cape High Court with a request that if leave is granted that the appeal be heard in the Supreme Court of Appeal. The matter is expected to be heard during the month of September 2009 on a date to be agreed. If leave is not granted by the Northern Cape High Court then the Company intends to petition the Supreme Court of Appeal directly.

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In the event that the legal process is unsuccessful and the liquidation order is confirmed then the appointed liquidators will establish who the creditors are and the amount of their claims and sell off the assets of Diamond Core to settle the creditors. The cost of a liquidation process is very high due to the liquidators' administration costs during the process, the fees and commissions due to the liquidators from the sale of assets and revenue received, the auctioneers fees, etc. As well due to the complicated structure of the Company's South African subsidiaries, each with different creditors with competing claims, the process, when it starts, in the event that the appeal process fails, will likely be long and costly. Thus, if the liquidation goes ahead, it is uncertain at this point whether any of the Company's assets in South Africa would remain at the end of the liquidation process.

However the Company's South African legal counsel has advised that there are good grounds for appeal and the Company remains hopeful of a positive outcome. The basis for the appeal includes the agreement entered into with KIG that will enable sufficient cash flow to become available to provide for the settlement of the claim by River Corporate Finance, albeit under protest.

BRC DIAMONDCORE LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2009

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**") based upon Canadian generally accepted accounting principles. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements as at and for the three and six month periods ended June 30, 2009, as well as the notes thereto, the audited consolidated annual financial statements as at and for the financial year of the Company ended December 31, 2008 ("**fiscal 2008**") and the notes thereto, and the annual MD&A for fiscal 2008. All amounts are expressed in Canadian dollars unless otherwise stated. This MD&A is dated as of August 14, 2009. Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at 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 the asset sale transaction with KIG Mining Plc, 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, the Company being unsuccessful in its appeal of the liquidation order against its subsidiary, Diamond Core Resources, failure to complete the asset sale transaction with KIG Mining Plc, 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 Democratic Republic of the Congo (the "**DRC**") or South Africa, changes to regulations affecting the Company's activities, uncertainties relating to the availability and costs of financing needed in the future, 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 that had been 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 three and six month periods ended June 30, 2009, the Company reported a net loss of \$2,062,000 (\$0.08 per share) and \$3,544,000 (\$0.14 per share) respectively (compared to a net loss of \$1,193,000 or \$0.05 per share and \$4,631,000 or \$0.20 per share for the three and six month periods ended June 30, 2008 respectively).

The Company's accumulated deficit as at June 30, 2009 was \$112,434,739 (compared to \$108,890,567 as at December 31, 2008). The Company has a working capital deficit of \$14,992,785 as at June 30, 2009 and had a net decrease in cash of \$62,000 during the three month period ended June 30, 2009.

While the Company's 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. This applies particularly to the DRC. Furthermore, certain current market conditions including continuing low 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 selected business units, sale of non-core assets and entering 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 sufficient 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

The ongoing weak global economic conditions have continued to adversely affect both diamond prices and the Company's access to both debt and equity finance. Following the strategic review of each of its South African operations that it had begun at the end of 2008 the Company took the decision to joint venture or sell its South African operations. The Company has engaged in numerous negotiations in fulfilment of this review, several of which are ongoing.

The services of all employees of the South African operations were terminated in April 2009. A skeleton staff is now employed on a rolling short term contract basis to attend to the administration of the Company and to ensure protection and preservation of the Company's assets. The Company's bulk sampling operations, i.e. Paardeberg East, Silverstreams and De Kalk, are still under "care and maintenance".

Silverstreams Bulk Sampling Alluvial Project

The plant 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.

The decision taken by the Company to suspend bulk sampling operations in the fourth quarter of 2008 is still effective.

De Kalk Bulk Sampling Alluvial Project

The decision taken by the Company to suspend bulk sampling operations in the fourth quarter of 2008 is still effective.

The contractor has removed all its equipment from site. The Company is keeping security in attendance on the site as its final recovery plant with two Flow Sort X-ray machines and a sort house is still on the site.

Sandrift Alluvial Prospecting Project

The Company has a prospecting licence on this alluvial gravel deposit. No further exploration on this project was carried out during the first six months of 2009.

Paardeberg East Bulk Sampling Kimberlite Project

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.

The decision taken by the Company to suspend bulk sampling operations in the fourth quarter of 2008 is still effective.

Democratic Republic of the Congo ("DRC")

Tshikapa Project

The Company has distilled the Tshikapa project down from 35 to 12 exploration permits after detailed geophysical surveys and sampling have provided promising drill targets to proceed with the remaining 12. These permits are covered by option agreements with Acacia sprl (6 permits), Caspian Oil & Gas (2 permits), Kings Mine, Investors Equity (2 permits) and Groupe Abba.

Detailed sampling and 200m line spacing geophysical surveys have generated 24 targets, interpreted as kimberlite intrusions, and have been earmarked for the next drilling phase. Two of these targets, on the Group Abba ground, have been covered by detailed ground magnetic surveys on 50m line spacing and are two clear circular magnetic anomalies. These have been modeled from the geophysics as being cylindrical in shape probably associated with intrusions. One is some 500m in diameter and between 5 to 9 ha in size and the other is 200m in diameter and 2 to 3 ha in size and they are interlinked with a dyke feature.

Recent stream sampling around these targets has returned abundant coarse grained kimberlite derived minerals suggesting that these are kimberlite intrusions. The grains will be selected for detailed surface texture and microprobe analysis to assess the diamond potential of the source of these grains. This is scheduled for the third quarter of 2009.

Detailed geophysical surveys are planned over the other 22 anomalies. The Company has also retained its drilling capabilities in Tshikapa. The Company's operations in Tshikapa remain under the care and maintenance programme that was initiated in the first quarter of 2009.

Northern DRC Project

The projects in the northern DRC, consisting of 18 exploration licences, are part of the Rio Tinto Mining and Exploration Ltd ("**Rio Tinto**") Northern DRC joint venture, in which Rio Tinto has the right to earn in equity over the various stages of the exploration programme.

Samples and concentrates from these projects have been submitted to the laboratories of Rio Tinto for analysis. Work on these projects has been temporality suspended as a cost saving measure pending the further analysis and interpretation of the samples and the laboratory results.

The Company has maintained its excellent relationship with Rio Tinto whereby Rio Tinto assists in the financing and exploration of properties to which the Company holds the licence permits. The Company hopes to further this relationship in the near future.

Kwango Project

Having identified that the project was not economically viable it was decided to withdraw from the Kwango project and all remaining licences were relinquished during the first quarter of 2009.

Licence Holding

During the first quarter of 2009 the following exploration licences in the DRC were relinquished: Acacia (5), BRC (4), Candore (5), BCM (1), Caspian Oil and Gas (9), Kwango Mines (3), Coexco (44). The Company will keep its focus on the following

exploration licences which are held by the Company directly or by partners through various option agreements: Acacia (6), BCE (16), BRC (2), Caspian Oil & Gas (2), Groupe Abba (1), King's Mine (1) and IEL (2). No DRC exploration licences were relinquished in the second quarter of 2009.

KIG Mining PLC Heads of Agreement

The Company has entered into a heads of agreement with KIG Mining Plc ("KIG") for the sale of the Company's South African alluvial assets for a sum of US \$10.7 million in cash and shares in KIG (reference is made to the Company's July 3, 2009 press release). The transaction is still subject to the completion of a full agreement and the fulfilment of various regulatory requirements. As well, the ability to complete this transaction may be adversely affected by the outcome of the appeal of the liquidation order against Diamond Core (see below).

Liquidation Proceedings

On July 3, 2009 Diamond Core (which is the holding company for all of the Company's South African assets) was the subject of a final liquidation order by the Northern Cape High Court in South Africa. The application for the liquidation was initiated by River Corporate Finance (Pty) Ltd, which was the exclusive adviser to Diamond Core on the transaction with the Company. The liquidation application was based on a claim in respect of the balance allegedly owing on a success fee of US\$1million. Diamond Core disputed the claim based on performance and has sued River Corporate Finance for the return of the R2 million of this fee already paid. Provisional liquidators have been appointed but while the appeal is being processed the liquidators may only secure the assets and no disposal or sale is possible without the approval of the shareholders (i.e. the Company).

An application for leave to appeal the liquidation order has been lodged with the Northern Cape High Court with a request that if leave is granted that the appeal be heard in the Supreme Court of Appeal. The matter is expected to be heard during the month of September 2009 on a date to be agreed. If leave is not granted by the Northern Cape High Court then the Company intends to petition the Supreme Court of Appeal directly.

In the event that the legal process is unsuccessful and the liquidation order is confirmed then the appointed liquidators will establish who the creditors are and the amount of their claims and sell off the assets of Diamond Core to settle the creditors. The cost of a liquidation process is very high due to the liquidators' administration costs during the process, the fees and commissions due to the liquidators from the sale of assets and revenue received, the auctioneers fees, etc. As well, due to the complicated structure of the Company's South African subsidiaries, each with different creditors with competing claims, the process when it starts, in the event that the appeal process fails, will likely be long and costly. Thus, if the liquidation goes ahead, it is uncertain at this point whether any of the Company's South African assets would remain at the end of the liquidation process.

However the Company's South African legal counsel has advised that there are good grounds for appeal and the Company remains hopeful of a positive outcome. The basis for the appeal includes the agreement entered into with KIG that will enable sufficient cash flow to become available to provide for the settlement of the claim by River Corporate Finance, albeit under protest.

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 Michiel 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.

TRANSACTION WITH DIAMOND CORE RESOURCES LIMITED

In July 2007, the Company and 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 common shares of the Company. Under the scheme, each Diamond Core shareholder was entitled to receive one share of the Company 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 shares of the Company 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 common shares of the Company in substitution for the Diamond Core ordinary shares, with the number of shares of the Company issuable to such shareholders adjusted to reflect the exchange ratio applicable under the terms of the scheme. Accordingly, the number of Company 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 shares.

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 the Company (the "Replacement Options"), so as to allow all holders of Old Options to acquire the number of common shares of the Company 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 shares of the Company, 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 the Company's average closing price of \$7.40 per share, calculated with reference to the share price around July 5, 2007, the Company 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 the Company 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 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.

	\$'000
Issuance of 12,089,678 common shares of the Company	89,464
Issuance of Replacement Options	2,477
Transaction costs	2,407
Purchase price	94,348
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
Fair value of net assets acquired	\$94,348

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

RESULTS OF OPERATIONS

For the six month period ended June 30, 2009, the Company reported a net loss of \$3,544,172 or \$0.14 per share, compared to a net loss of \$4,631,000 or \$0.20 per share, reported for the six month period ended June 30, 2008.

For the three month period ended June 30, 2009, the Company reported a net loss, of \$2,062,000 (or \$0.08 per share), compared to a net loss of \$1,193,000 (or \$0.05 per share) incurred during the three month period ended June 30, 2008.

The major component of the increased expenses and cause of the increased loss of the quarter were salaries and the retrenchment costs associated with the termination of the employment contracts. These costs are at an end and will not be incurred in the future. Even though the Company has placed its operations on a care and maintenance basis there are still significant costs such as surface use rentals payable to the land owners, electricity, security, fuel etc. Depreciation also continues even though the assets are not in use. Costs incurred in South African rand increased due to the 17% increase in the value of the rand against the Canadian dollar over the quarter.

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 second quarter of 2009. 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.

	2009 2nd quarter	2009 1st quarter	2008 4th quarter	2008 3rd quarter
Net loss (\$'000)	\$2,062	\$1,483	\$ 90,873	\$ 7,498
Net loss per share (basic and diluted)	\$0.08	\$0.06	\$ 3.70	\$ 0.31
	2008 2nd quarter	2008 1st quarter	2007 4th quarter	2007 3rd quarter
Net loss (\$'000)	\$ 1,193	\$ 3,438	\$ 16	\$ 1,114
Net loss per share (basic and diluted)	\$ 0.05	\$ 0.17	\$ 0.01	\$ 0.08

During the second quarter of 2009, the Company's net loss was \$2,062,000 compared to a net loss of \$1,483,000 reported during the first quarter of 2009. The increased loss, reported in Canadian dollars, is partially as a result of the 17% appreciation in the South African rand over the second quarter. There were additional costs associated with retrenchment of employees. The Company maintained its decision to place its South African bulk sampling operations on a care and maintenance basis as a result of market

conditions. Similarly the DRC exploration activities remained on a care and maintenance basis as a result of decreased funding for operations in the DRC.

During the first quarter of 2009, the Company's net loss reduced to \$1,483,000 compared to a net loss of \$90,837,000 reported during the fourth quarter of 2008. This change was mainly as a result of the Company's decision to place its operations on a care and maintenance basis as a result of decreased funding for operations in the DRC and the low diamond prices adversely affecting the bulk sampling operations in South Africa, which was in effect throughout the first quarter of 2009 but for only part of the fourth quarter of 2008.

During the fourth quarter of 2008, the Company's net loss increased to \$90,873,000 compared to a net loss of \$7,498,000 reported during the third quarter of 2008. This increase was 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 \$7,498,000 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.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2009, the Company had cash of \$171,000 and a working capital deficit of \$14,992,785 compared to cash of \$198,000 and a working capital deficit of \$13,033,742 as at December 31, 2008.

As a result of the ongoing suspension of its bulk sampling activities in South Africa which started during the fourth quarter of 2008, the Company does not currently generate operating revenues. Suspension of bulk sampling occurred when the collapse of diamond prices meant that operating costs exceeded expected revenues from the sale of diamonds recovered.

Similar to other foreign entities and all local companies operating in South Africa, the Company is subject to currency exchange controls administered by the country's central bank. An ability to manage cash flows, 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 out of funds generated by the South African operations.

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 have and are being met through a variety of sources, including: cash on hand, cash generated from operations, cash generated from the sale or renting of non-core assets, existing credit facilities, trade credit, leases, and debt and equity markets.

Weakening global economic conditions have led to a significant weakness in commodity prices in recent times, 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 2009, the Company will either have to access debt and equity markets for financing or sell off non-core business units over the next twelve month period. 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 continued a series of measures, initiated in the last quarter of 2008, 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. It is now also proposing to sell non-core business units and has reasonable prospects for concluding such sales in the third quarter of 2009.

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern. In the first and second quarters of 2009, the Company has been able to contain costs and if the measures detailed above are successfully implemented, although this is subject to factors outside of the control of management, then management currently believes that the Company will be able to satisfy its current and long-term obligations.

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 June 30, 2009, the balance of the Loan Facility was \$6,280,133. (December 31, 2008: \$6,172,317) including accrued interest of \$420,727 (December 31, 2008: \$307,872).

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 August 14, 2009, the Loan Facility guaranteed by Banro is still in place.

Contractual obligations (not on balance sheet) that have been entered into by the Company as at June 30, 2009 amount to \$310,591 (compared to \$747,000 as at June 30, 2008) and are summarized in the table below:

	Total	Less than 1 year	1 - 3 years
Contractual obligations	\$ 237,394	\$ 237,394	\$ nil
Operating leases	\$ 73,197	\$ 63,365	\$ 9,833
	\$ 310,591	\$ 300,759	\$ 9,833

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 three and six month periods ended June 30, 2009.

DRC

Three month period Ended June 30, 2009	Kwango Project \$'000	Lubao Project \$'000	Tshikapa (Acacia) Project \$'000	Tshikapa (Candore) Project \$'000	Other Projects \$'000	Total \$'000
Balance 3/31/2009	43	314	3,033	405	1,768	5,563
Administrative and office support	-	-	115	-	390	505
Depreciation	-	-	58	-	1	59
Drilling	-	-	16	-	-	16
Field camp expenses	-	-	22	-	(15)	7
Permits & Surface taxes	-	-	-	-	21	21
Professional fees	-	-	27	-	6	33
Profit on sale of assets	-	-	(22)	-	(28)	(50)
Remote sensing	-	-	-	-	-	-
Share based payments	-	-	58	-	76	134
Transport	-	-	4	-	5	9
Unrealised foreign exchange difference	-	51	477	62	279	869
Subtotal – second quarter period of 2009	-	51	755	62	735	1,603
Balance 6/30/2009	43	365	3,788	467	2,503	7,166

Six month period Ended June 30, 2009	Kwango Project \$'000	Lubao Project \$'000	Tshikapa (Acacia) Project \$'000	Tshikapa (Candore) Project \$'000	Other Projects \$'000	Total \$'000
Balance December 31,2008	0	327	3,032	415	1,787	5,561
Administrative and office support	21	-	169	2	246	438
Depreciation	-	-	60	1	42	103
Drilling	-	-	16	-	-	16
Field camp expenses	10	-	80	1	113	204
Permits and surface taxes	-	-	-	-	21	21
Professional fees	3	-	32	1	17	53
Profit on sale of assets	-	-	(22)	-	(28)	(50)
Remote sensing	-	-	-	-	-	-
Share based payments	-	-	58	-	76	134
Transport	8	-	8	-	21	37
Unrealised foreign exchange difference	-	38	355	47	208	648
Subtotal – six month period ended June 30, 2009	43	38	756	52	716	1,605
Balance 6/30/2009	43	365	3,788	467	2,503	7,166

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

South Africa

No exploration expenses were capitalised for any of the South African projects during the first six months of 2009. All South African exploration projects are currently under care and maintenance.

OUTSTANDING SHARE DATA

The authorized share capital of the Company consists of an unlimited number of common shares. As at August 14, 2009, the Company had outstanding 26,091,310 common shares and stock options to purchase an aggregate of 3,198,142 common shares of the Company.

In addition, as part of the transaction with Diamond Core, the Company had 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 transaction) if certain profitability thresholds were met in relation to certain of Diamond Core's projects (see "Transaction with Diamond Core Resources Limited").

RELATED PARTY TRANSACTIONS

	June 30, 2009		December 31, 2008	
	\$'000		\$'000	
Balances Payable				
Macleod Dixon LLP	\$	798	\$	745
SFW Village		138		-
AT Kondrat		50		-
DK Madilo		24		-
Scallan Project Facilitation (Pty) Ltd ^(f)		2		13
Sterling Portfolio Securities Inc. ^(g)		101		11
	\$	1,113	\$	769

Transactions	For the three month period ended		For the six month period ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	\$'000	\$,000	\$'000	\$'000
Macleod Dixon LLP ^(a)	\$ 72	\$ 30	\$ 120	\$ 189
Banro Corporation ^(b)	-	(99)	-	(11)
SFW Village ^(c)	67	25	138	50
AT Kondrat ^(d)	25	21	50	42
DK Madilo ^(e)	12	10	24	20
Sterling Portfolio Securities Inc.	20	-	90	-
	\$ 196	\$ (13)	\$ 422	\$ 290

- a) During the three and six month periods ended June 30, 2009, legal fees and related costs of \$72,140 and \$119,993 (June 30, 2008: \$30,000 and \$ 189,000) incurred in connection with general corporate matters 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, 2008: 14.35%) equity stake in the Company. It is engaged in the acquisition and exploration of gold properties in the DRC. During the three and six month periods ended June 30, 2009, the Company incurred \$nil and \$nil in general and office related expenses for contribution to these expenses (June 30, 2008 : \$99,000 and \$11,000).
- c) Consulting fees in respect of services to the Company as well as a short term advance to the Company. Mr. Village is a director and officer of the Company.
- d) Consulting fees are paid to Mr. Kondrat who is a non-executive director of the Company.
- e) Consulting fees are paid to Mr. Madilo, who is an officer of the Company.
- 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 and 2009, 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

- a) Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted CICA Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other 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. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. The adoption of this new standard did not have a significant impact on the Company's financial statements.

- b) Mining Exploration Costs

In March 2009, the CICA issued EIC-174, Mining Exploration Costs, to provide additional guidance for mining exploration enterprises on when an impairment test is required. This new Abstract replaces EIC-126, Accounting by Mining Enterprises for Exploration Costs. The Abstract states that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The accounting treatments provided in EIC-174 have been applied in the preparation of the Company's financial statements and did not have a significant impact on the valuation of exploration assets.

- c) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for the first quarter of 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of financial assets or liabilities.

FUTURE ACCOUNTING STANDARDS

- a) 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 and will require the restatement, for comparative purposes, of amounts reported by the Company for its fiscal year ended December 31, 2010. IFRS uses a conceptual framework similar to Canadian GAAP, but

there are significant differences in recognition, measurement and disclosures. While adoption of IFRS will not change the actual cash flow movements of the Company, the adoption of IFRS will result in changes to the reported financial position and results of operations of the Company. 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 and has established the following:

- All of the Company's South African subsidiaries are subject to IFRS. Diamond Core had successfully adopted IFRS prior to the acquisition thereof by the Company and is currently reporting its statutory returns in South Africa in terms of IFRS. This will facilitate the adoption of IFRS, since the Company's reporting systems and processes already take both Canadian GAAP and IFRS into consideration and the staff involved in the financial reporting process are knowledgeable on IFRS.
- The Company is in the process of identifying the key areas where differences between Canadian GAAP and IFRS exist and the Company reviews any new financial information on an ongoing basis to identify further areas of differences that will need to be addressed. I.e. 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 IFRS 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 South African local statutory financial statements under IFRS, the Company will need to assess the impact for Canada and the DRC.

During the first six months of 2009, the following steps have been completed as part of the formal IFRS transition plan:

- i. • A formal project structure including project governance
- ii. • An estimate of required resources (combination of internal and external)
- iii. • A detailed timeline for fiscal 2009 and 2010
- iv. • A proposed training program
- v. • A comprehensive analysis and review of all IFRS 1 elections

During the remainder of 2009, a comprehensive analysis of all GAAP and IFRS differences will be addressed as well as an assessment of the impact on data systems, internal controls over financial reporting and business activities.

b) 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 Company's consolidated financial statements include the Company's estimate of the recoverable value of its mineral properties and related deferred exploration expenditures, 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.

Mineral Properties and Deferred Exploration Expenses

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.

Management uses its best available information to identify the point at which a development project is capitalized, assess resources, 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 resources 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.

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 resources 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. The Company'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.

Stock-Based Compensation

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%
- (ii) expected volatility: 95%
- (iii) expected life: 5 years
- (iv) expected dividends: \$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 six month period ended June 30, 2009.

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 but which have been currently suspended) 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 but will be able to do so if suitable joint venture agreements are concluded.

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 and any recovery could be accompanied by volatility. 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 favour 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. While it is not expected that these shortages will be repeated in the immediate future and 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:

	June 30, 2009 \$'000		December 31, 2008 \$'000
Financial Assets			
Held-for-trading, measured at fair value			
Cash	\$ 171	\$	198
Restricted Cash	248		308
Loans and receivables measured at amortised cost			
Other assets	561		562
Financial Liabilities			
Other liabilities, measured at amortised cost			
Accounts payable and accrued liabilities	\$ 9,093	\$	7,542
Debt	6,280		6,172
Lease	639		499

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

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.

b. 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.

c. 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.

d. 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, asset sales, 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 month period. 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 June 30, 2009, the Company will be able to satisfy its current and long-term obligations. As at June 30, 2009, the Company's consolidated financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern (see note 1 to the financial statements).

e. 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 three and six month periods ended June 30, 2009, 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 \$91,574 and \$145,318 decrease and increase in the Company's net loss.

f. 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.

g. 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.

h. 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.

i. 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.

RETRENCHMENT OF EMPLOYEES

In response to the economic circumstances affecting the Company and the decision to place operations on a care and maintenance basis, the Company initiated a retrenchment process of all its employees of its South African subsidiaries during the first quarter of 2009. In terms of South African labour law related to retrenchments there are a mandatory consultation period and a mandatory notice period. This process was concluded on April 11, 2009. A skeleton staff is now employed on a rolling short term contract basis to attend to the administration of the Company and to ensure protection and preservation of the Company's assets.

During the first quarter of 2009, employees in the DRC were also retrenched and operations cut back. The lease for the corporate office was cancelled and office space

made available in the Company's management flat. The lease for the Company's executive flat has been cancelled. The Tshikapa camp is being maintained on a care and maintenance basis. Altogether 21 employees have been retrenched out of a total staff complement of 31, in addition two expatriot contracts have also been discontinued. The present complement has been reduced to 10

SEFALANA LITIGATION

In 2006, Samadi, a 100% subsidiary of Diamond Core, entered into a transaction with Sefalana Mineral Resources (Pty) Limited ("**Sefalana**") ("**Sefalana transaction**"). In terms of the Sefalana transaction, Sefalana acquired 50% of the issued ordinary share capital and loan accounts of certain of the Samadi subsidiaries (see note 9 of the Company's financial statements) 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 such 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, which was deemed to have accepted such offer. Sefalana is disputing Samadi's position.

Samadi had made application in the High Court (South Gauteng Provincial Division) for a declarator against Sefalana but this was refused in March 2009. The judgment did not interfere with the current shareholder structure, had 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 has consequently filed a notice to appeal the judgment.

TSX DELISTING REVIEW

Arising from the state of the Company's financial position and the substantial decline in the market capitalisation of the Company's shares, the Toronto Stock Exchange ("**TSX**") is reviewing the eligibility for the continued listing on the TSX of the Company's shares. The TSX has indicated that this delisting review will take into account the outcome of the various matters affecting the Company that have been reported elsewhere in this MD&A. In the event that the TSX decides to delist the Company's shares, the Company understands that a reasonable amount of time will be given to the Company to make alternative listing arrangements.

FUTURE STRATEGY

The Company sees its main strategy as the exploration for and, if successful, the consequent development of a kimberlite diamond mining operation in the DRC, with this being supported by any remaining interests in South Africa. It is actively developing its existing relationships to extend its joint venture arrangements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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.

The Company's decision to retrench operational staff, including accounting staff, in response to deteriorating global economic conditions (which was completed during the second quarter of 2009) may impede its ability to maintain an adequate internal control environment, specifically as it relates to lack of segregation of duties and inadequate system monitoring. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. However, until such time as sufficient financial resources are available, the Company might not be able to mitigate the above described risks and weaknesses.

During the quarter ended March 31, 2009 the Company extended the principles of *Internal Control – Intergrated Framework* issued by The Committee of Sponsoring Organizations of the Treadway Commission to the South African operations with appropriate adaptation to local conditions.

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.