



BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 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 nine month periods ended September 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.

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

(formerly BRC Diamond Corporation)

Consolidated Balance Sheets (unaudited)

(expressed in Canadian dollars)

	As at September 30, 2009 \$'000	As at December 31, 2008 \$'000
ASSETS		
CURRENT		
Cash	\$ 32	\$ 198
Prepaid expenses and other assets	326	562
Inventory (Note 4)	-	122
	<u>357</u>	<u>882</u>
NON CURRENT		
Restricted cash (Note 2)	-	308
Mineral properties and deferred exploration expenditures (Note 9)	6,735	9,075
Capital assets (Note 10)	190	8,847
	<u>6,925</u>	<u>18,230</u>
	\$ 7,282	\$ 19,112
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 5 and 7)	\$ 4,881	\$ 7,542
Other liabilities	-	201
Debt (Note 6)	6,338	6,172
	<u>11,219</u>	<u>13,915</u>
NON-CURRENT		
Asset retirement obligations (Note 8)	-	2,132
Long term lease (Note 7)	-	499
	<u>-</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))	7,562	6,934
Black economic empowerment reserve	-	1,076
Deficit	(117,314)	(108,891)
Accumulated other comprehensive loss (Note 11(f))	-	(2,370)
	<u>3,937</u>	<u>2,565</u>
	\$ 7,282	\$ 19,112

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)
(expressed in Canadian dollars)

	For the three month period ended		For the nine month period ended	
	September 30, 2009 \$'000	September 30, 2008 \$'000	September 30, 2009 \$'000	September 30, 2008 \$'000
Continuing operations				
Expenses				
Consulting fees	\$ 27	\$ 153	\$ 103	\$ 316
Depreciation	42	41	42	130
Doubtful debts	903	-	903	-
Professional fees	(69)	93	51	93
General and administrative	156	1,125	2	1,998
Stock-based compensation (Note 11(b))	177	1,237	388	1,593
(Profit)/Loss on sale of assets	(9)	-	(9)	-
Regulatory expenses	-	30	-	280
Foreign exchange (gain)/loss unrealized	683	(369)	46	2,499
	<u>(1,909)</u>	<u>(2,310)</u>	<u>(1,526)</u>	<u>(6,909)</u>
Other income	278	176	238	261
Loss before the under noted items	(1,631)	(2,134)	(1,288)	(6,648)
Impairment of mineral properties	-	(5,312)	-	(5,312)
Interest income	-	28	-	60
Interest expense	(105)	(80)	(49)	(229)
	<u>(1,736)</u>	<u>(7,498)</u>	<u>(1,337)</u>	<u>(12,130)</u>
Loss before discontinued operations	(1,736)	(7,498)	(1,337)	(12,130)
Loss from discontinued operations (Note 3)	<u>(3,143)</u>	<u>-</u>	<u>(7,086)</u>	<u>-</u>
Net loss for the period	(4,879)	(7,498)	(8,423)	(12,130)
Deficit - beginning of the period	(112,435)	(10,520)	(108,891)	(5,889)
Deficit - end of the period	\$ (117,314)	\$ (18,018)	\$ (117,314)	\$ (18,018)
Basic and diluted loss expressed in dollars per share (Note 11(d))	\$ 0.19	\$ 0.3	\$ 0.32	\$ 0.50
Weighted average number of common shares outstanding	26,091,310	24,042,000	26,091,310	24,042,000

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)

Expenses

	For the three month period ended		For the nine month period ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$'000	\$'000	\$'000	\$'000
Net loss	\$ 4,879	\$ 7,498	\$ 8,423	\$ 12,130
Unrealized foreign currency (gain)/loss on self sustaining operation	-	-	-	-
Comprehensive loss/ (income)	\$ 4,879	\$ 7,498	\$ 8,423	\$ 12,130

GOING CONCERN (Note 1)

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

BRC DiamondCore Ltd.

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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 nine month period ended	
	Sep. 30, 2009	Sep. 30, 2008	Sep. 30, 2009	Sep. 30, 2008
	\$'000	\$'000	\$'000	\$'000
Operating				
Net loss for the period	\$ (4,879)	\$ (7,498)	\$ (8,423)	\$ (12,130)
Items not effecting cash				
Depreciation	42	41	42	130
Asset retirement obligation	-	513	-	1,048
Other provisions	-	21	-	120
Stock based compensation and stock based consulting fees	177	1,237	388	1,593
Unrealized foreign exchange loss (gain)	683	(369)	46	2,499
BEE Reserve	(1,076)	-	(1,076)	-
Loss on disinvestment of subsidiary	3,143	-	3,143	-
(Profit)/Loss on sale of fixed assets	(9)	-	(9)	-
Write-off mineral properties	-	5,312	-	5,312
Non Cash items from discontinued operations	-	-	1,901	-
	<u>\$ (2,603)</u>	<u>\$ (742)</u>	<u>\$ (4,035)</u>	<u>\$ (1,427)</u>
Net change in non-cash working capital items				
Unrealised foreign currency gain relating to balance sheet	2,202	-	2,370	-
Tax paid	-	(6)	-	(126)
Prepaid expenses and other assets	164	105	165	567
Accounts payable and accrued liabilities	(374)	380	1,939	51
Inventory	-	61	-	751
	<u>\$ (611)</u>	<u>\$ (202)</u>	<u>\$ 439</u>	<u>\$ (184)</u>
Investing				
Cash balances acquired/disinvested from Diamond Core	(57)	-	(57)	2,308
Mineral properties and deferred exploration expenditures	434	(1,412)	(1,088)	(5,960)
Capital assets	31	609	369	528
	<u>\$ 408</u>	<u>\$ (803)</u>	<u>\$ (776)</u>	<u>\$ (3,124)</u>

BRC DiamondCore Ltd.

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Consolidated Statements of Cash Flow (unaudited) (continued)

(expressed in Canadian dollars)

**Net (outflow) inflow of cash related to
the following activities**

	For the three month period ended		For the nine month period ended	
	September 30, 2009 \$'000	September 30, 2008 \$'000	September 30, 2009 \$'000	September 30, 2008 \$'000
Financing				
Issue of common shares and warrants, net of expenses	-	525	-	525
Due to related parties	-	1	-	(1)
(Decrease)/Increase in short term debt	<u>(64)</u>	<u>79</u>	<u>172</u>	<u>3,070</u>
Increase/(decrease) in cash and cash equivalents during the period	(139)	(400)	(166)	286
Cash and cash equivalents – beginning of the period	171	1,618	198	932
Cash and cash equivalents – end of the period	\$ <u>32</u>	\$ <u>1,218</u>	\$ <u>32</u>	\$ <u>1,218</u>

GOING CONCERN (Note 1)

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

BRC DiamondCore Ltd.

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Notes to the Consolidated Financial Statements (unaudited)

September 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 \$4,879,249 and \$8,423,420 during the three and nine month periods ended September 30, 2009 (losses of \$7,498,000 and \$12,129,000 during the same respective periods in 2008) and also in recent past periods. The Company's accumulated deficit as at September 30, 2009 was \$117,313,987 (December 31, 2008: \$108,890,567). The Company had a working capital deficit of \$10,861,224 as at September 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 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 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, prior to the third quarter, the Company's financial statements also included 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 Gemsbok (Pty) Ltd, Samadi Exploration (Pty) Ltd, Samadi Douglas (Pty) Ltd, Prieska Diamond Mining (Pty) Ltd, Sandstraat Eksplorاسie (Pty) Ltd and Sandrif (Pty) Ltd all of which were 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, 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 or to 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.

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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 Resources (Pty) Ltd 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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September 30, 2009 (expressed in Canadian dollars)

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.

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

No restricted cash is currently held. In the previous reporting period prior to the disposition of Diamond Core Resources (Pty) Ltd, restricted cash was held by various financial institutions as security for guarantees the Company had 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.

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)).

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Notes to the Consolidated Financial Statements (unaudited)

September 30, 2009 (expressed in Canadian dollars)

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)". Prior to the disposition of Diamond Core Resources (Pty) Ltd (Note 3), the operations in South Africa were considered self-sustaining and their functional currency was 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.

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.

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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. Its former South African subsidiary, Diamond Core Resources (Pty) Ltd, had successfully adopted IFRS prior to the acquisition thereof by the Company (see Note 3) and previously reported its statutory returns in South Africa in terms of IFRS. This has provided experience in the use of IFRS

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

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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.

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.

c) Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply to annual financial statements for fiscal years ending after September 30, 2009. Earlier adoption is permitted. The Company is currently evaluating the impact of the adoption of these changes on its consolidated financial statements.

3. DISCONTINUED OPERATIONS –DIAMOND CORE RESOURCES

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 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.

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On July 3, 2009 Diamond Core (which was the holding company for all of the Company's South African projects) 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 had been 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 counter claimed to River Corporate Finance for the return of the R2 million of this fee already paid.

An application for leave to appeal the liquidation order was 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. Final liquidators have been appointed but while the appeal is being processed the liquidators may only secure the assets and no disposal or sale of the assets is possible without the approval of the shareholder of Diamond Core.

Effective September 30, 2009, the Company sold all of its shares in Diamond Core for nominal consideration plus, if the offer of compromise referred to in the next sentence is approved by the court, for value of US\$500,000. The terms of the sale contemplate that the purchaser enter into an offer of compromise with the creditors of Diamond Core. The previously announced heads of agreement with KIG Mining Plc has been cancelled.

Having regard to the sale by the Company of 100% of the shares in Diamond Core, the financial accounts of Diamond Core including all its subsidiaries are no longer consolidated with the Company.

The Company's fixed assets located in South African now only consist of a portable recovery plant, constructed in three containers that had been built for one of the Company's operations in the DRC (the Kwango River alluvial project that the Company subsequently relinquished). The Company advanced funds of \$335,000 to Diamond Core Technical Services (Pty) Ltd to custom build this processing plant for operations in the DRC. The liquidation order and subsequent proceedings prevented the finalisation of shipping the processing plant to the DRC. The advance is included under prepaid expenses and other assets on the balance sheet with a provision for doubtful debts of the same amount against it. The Company will continue to claim its ownership of the plant in forthcoming liquidation proceedings.

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Discontinued Operations	For the three month period ended Sept. 30, 2009 \$'000	For the nine month period ended Sept. 30, 2009 \$'000
Revenue	-	-
Expenses	-	3,943
Loss from discontinued operations	-	3,943
Net asset value of subsidiary sold	3,143	3,143
Net loss from discontinued operations	\$ 3,143	\$ 7,086

Assets and liabilities part of disposal group

Cash	306	306
Prepaid expenses and other assets	71	71
Inventory	139	139
Mineral properties and deferred exploration costs	3,562	3,562
Capital assets	6,460	6,460
Asset retirement obligation	(2,421)	(2,421)
Accounts payable and accrued liabilities	(4,974)	(4,974)
	\$ 3,143	\$ 3,143

The loss from discontinued operations is not final and dependent on the outcome of the possible offer of compromise referred to above.

4. INVENTORY

	September 30, 2009 \$'000	December 31, 2008 \$'000
Consumables	\$ -	\$ 122
	\$ -	\$ 122

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5. RELATED PARTY TRANSACTIONS

	September 30, 2009	December 31, 2008
Balances Payable	\$'000	\$'000
Macleod Dixon LLP ^(a)	\$ 852	\$ 745
Banro Corporation ^(b)	6,344	-
SFW Village ^(c)	212	-
AT Kondrat ^(d)	75	-
DK Madilo ^(e)	36	-
Scallan Project Facilitation (Pty) Ltd ^(f)	-	13
Sterling Portfolio Securities Inc. ^(g)	117	11
	7,636	769

Transactions	For the three month period ended		For the nine month period ended	
	September 30, 2009 \$'000	September 30, 2008 \$,000	September 30, 2009 \$'000	September 30, 2008 \$'000
Macleod Dixon LLP ^(a)	\$ 74	\$ 83	\$ 194	\$ 272
Banro Corporation ^(b)	6,344	-	6,344	(11)
SFW Village ^(c)	67	25	163	75
AT Kondrat ^(d)	25	25	75	75
DK Madilo ^(e)	12	12	36	36
Scallan Project Facilitation (Pty) Ltd ^(f)	-	58	-	58
Sterling Portfolio Securities Inc. ^(g)	\$ 16	\$ -	\$ 16	\$ -
	6,538	203	6,828	505

- a) During the three and nine month periods ended September 30, 2009, legal fees and related costs of \$74,346 and \$194,990 (September 30, 2008: \$83,000 and \$272,000) 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 nine month periods ended September 30, 2009, Banro made an advance to the Company of \$6,349,991 and \$6,349,991 of which \$6,337,991 was utilised to settle the loan facility with a Canadian financial institution (Note 6) (September 30, 2008: \$11,000 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.

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- 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. 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 or debt. Other than the loan from Banro, which is secured by a general security agreement and which bears interest at a rate of prime plus 1%, 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 had a loan facility established with a Canadian financial institution which bore interest at prime rate plus 1% per annum. The effective interest rate for the nine month period ended September 30, 2009 was 2.68% (December 31, 2008: 5.75%). At September 30, 2009, the balance of this short term debt was \$nil (December 31, 2008: \$6,172,317. This loan facility had been utilized to fund exploration activities in the DRC and all interest of \$420,727 was capitalized to exploration cost. This loan facility to the financial institution was paid in full by a matching loan from Banro Corporation ("Banro"), a significant shareholder of the Company. The loan from Banro is being settled as part of a debt for equity swap (see Note 15).

7. LEASE LIABILITIES

	As at September 30, 2009 \$'000	As at December 31, 2008 \$'000
Total lease liability	\$ -	\$ 649
Less: Current portion included in accounts payable and accrued liabilities	-	(150)
	\$ -	\$ 499

8. ASSET RETIREMENT OBLIGATIONS

The provision for the site closure and reclamation costs as at December 31, 2008 related to the Silverstreams, Paardeberg East and De Kalk projects in South Africa which are no longer owned by the Company (see Note 3).

	As at September 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	-	-
Loss of investment	(2,132)	-

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September 30, 2009 (expressed in Canadian dollars)

Balance at end of period	\$	-	\$	2,132
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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 nine months of 2009.

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 and third quarters of 2009.

Effective September 30, 2009, the Company sold its entire shareholding in Diamond Core Resources (Pty) Ltd which held the Company's South African diamond projects (see Note 3).

The Company has incurred deferred exploration expenditures and mineral property costs, in the DRC and in South Africa as at September 30, 2009 as follows:

Group

	Cumulative from inception in 1990 to September 30, 2009 \$'000	Year ended December 31, 2008 \$'000	Nine month period ended September 30, 2009 \$'000
Mineral property costs			
Canada	\$ -	\$ -	\$ -
DRC	2	-	(1)
South Africa	-	3,512	(3,563)
	2	3,512	(3,564)
Deferred exploration expenditures			
DRC	6,733	(8,625)	1,172
South Africa	-	-	-
	6,733	(8,625)	1,172
Total mineral properties and deferred exploration expenditures	\$6,735	\$ (5,113)	\$(2,392)

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DRC

	Cumulative from inception in 1990 to September 30, 2009 \$'000	Year ended December 31, 2008 \$'000	Nine month period ended September 30, 2009 \$'000
Mineral property costs			
Claims and staking	2	\$ -	\$ (1)
Total mineral property costs	2	-	(1)
Deferred exploration expenditures			
Administrative and office support	4,984	1,719	438
Depreciation	645	259	103
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	667	462	53
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 difference	1,837	1,623	215
Write off	(16,788)	(16,788)	-
Total deferred exploration expenditures	6,733	(8,625)	1,172
Total mineral properties and deferred exploration expenditures	\$ 6,735	\$ (8,625)	\$ 1,171

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South Africa

	Cumulative from inception in 1990 to September 30, 2009 \$'000	Year ended December 31, 2008 \$'000	Nine month period ended September 30, 2009 \$'000
Mineral property costs			
Acquisition of Diamond Core	\$14,188	\$ 13,152	-
Unrealised foreign exchange difference	(985)	-	-
Disinvestment	(3,563)	-	(3,563)
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)	-
	18,654	18,654	-
Net proceeds on diamond sales	(8,475)	(8,475)	-
Write off	(10,179)	(10,179)	-
Total mineral properties and deferred exploration expenditures	\$ -	\$ 3,512	-

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10. CAPITAL ASSETS

	As at September 30, 2009			
	Cost	Accumulated	Accumulated	Net Book
	\$'000	Depreciation	Impairment	Value
	\$'000	\$'000	\$'000	\$'000
Computer equipment	\$ 30	\$ 18	\$ -	\$ 12
Exploration and mining assets	359	188	-	171
Furniture and Office equipment	21	14	-	7
Leasehold improvements	225	225	-	-
Vehicles	239	239	-	-
	\$ 874	\$ 684	\$ -	\$ 190

	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
	\$ 19,263	\$ 3,619	\$ 6,796	\$ 8,847

During the three and nine month periods ended September 30, 2009, \$nil and \$103,000, respectively, of depreciation was included in mineral properties and deferred exploration expenditures (see Note 9) (September 30, 2008: \$32,000 and \$1,775,000).

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	26,091	105,815
Balance, September 30, 2009	26,091	\$105,815

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

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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 September 30, 2009, the Company had outstanding under the stock option plan stock options to acquire 2,991,400 (December 31, 2008: 3,846,400) common shares of the Company at a weighted-average price of \$ 2.13 (December 31, 2008: \$2.16) per share.

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

Date of Grant	Number outstanding at 12/31/2008	Options granted during the period	Options Exercised, Expired or Forfeited	Number outstanding at 09/30/09	Options Exercisable at 09/30/09	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	-	570,000	1,795,000	1,346,250	\$ 1.05	\$ 0.77	08/28/13
	3,821,400	-	830,000	2,991,400	2,542,650			

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During the three and nine month periods ended September 30, 2009, the Company recognized in the statement of operations as stock-based compensation expense \$177,120 and \$388,320 for continued operations (\$105,293 included in discontinued operations), respectively, (September 30, 2008: \$1,237,000 and \$1,593,000) representing the fair value of stock options previously granted to employees, directors and officers under the Company's stock option plan. During the three and nine month periods ended September 30, 2009, the Company capitalized an amount of \$nil and \$134,012 as stock option expenses to deferred exploration costs (Note 9). These amounts were credited accordingly to the 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 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 September 30, 2009, 460,968 of these options had been cancelled.

d) Loss per share

The loss per share figures for the three and nine month periods ended September 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, (September 30, 2008: 24,042,000 and 24,042,000 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.

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e) *Contributed Surplus*

	September 30, 2009 \$'000	December 31, 2008 \$'000
Balance, beginning of the period	\$ 6,934	\$ 2,757
Options granted	628	1,700
Balance, end of the period	\$ 7,562	\$ 6,934

f) *Accumulated other comprehensive income*

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

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 although the counter party has stated it wishes to modify the option agreement. The Company is hopeful of reaching an acceptable settlement.

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

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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.

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 nine month period ended September 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:

	September 30, 2009 \$'000	December 31, 2008 \$'000
<u>Financial assets</u>		
Held-for-trading, measured at fair value		
Cash	\$ 32	\$ 198
Restricted Cash	-	308
Loans and receivables, measured at amortised cost		
Other assets	326	562
<u>Financial liabilities</u>		
Other liabilities, measured at amortised cost		
Accounts payable and accrued liabilities	\$ 4,881	\$ 7,542

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Debt	\$	6,338	\$	6,172
Lease	\$	-	\$	499

b. Allowance account for credit losses

	September 30, 2009	December 31, 2008
Accounts receivable	\$ 903	\$ -
Allowance for doubtful accounts	(903)	-
Other	326	-
	<u>\$ 326</u>	<u>\$ -</u>

The allowance for doubtful accounts resulted from the previously accounted for intercompany receivables from the Diamond Core group, which group has been disposed of by the Company (Note 3).

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, 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.

BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2009 (expressed in Canadian dollars)

Weakening global economic conditions led to a significant weakness in exchange traded commodity prices, 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 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

Management currently believes that based on its financial position and liquidity profile at September 30, 2009, the Company will be able to satisfy its current and long-term obligations. As at September 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 nine month periods ended September 30, 2009, everything else being equal, a 5% increase or decrease in the exchange rate between the Canadian dollar and the US dollar would have resulted in a respective \$6,245 and \$151,563 decrease and increase in the Company's net loss. The currency risk of the Company has declined with the disposition of the South African operations (Note 3).

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

BRC DiamondCore Ltd.

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September 30, 2009 (expressed in Canadian dollars)

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

Title risk

Title to mineral properties 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 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

In November 2009 the Company announced that it has entered into agreements with certain of its creditors pursuant to which such creditors have agreed to accept common shares of the Company, to be issued from treasury by the Company at a price of \$0.20 per share, in satisfaction of indebtedness owed to them by the Company (the "Debt Settlements"). The total number of common shares to be issued by the Company to the creditors under the Debt Settlements is 43,317,330 shares (the "Debt Shares"), and the total amount of Company debt to be settled by such share issuances is \$8,663,466.

The Company also announced in November 2009 that it proposes to carry out a non-brokered private placement of up to 20,000,000 units of the Company (the "Units") at a price of \$0.05 per Unit for proceeds to the Company of up to \$1,000,000. Each Unit is to be comprised of one common share of the Company and one warrant of the Company, with each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.066 for a period of four years. The Company intends to use the proceeds from this financing (the "Financing") for working capital and general corporate purposes. The financing may be entirely subscribed for by directors.

BRC DiamondCore Ltd.

(formerly BRC Diamond Corporation)

Notes to the Consolidated Financial Statements (unaudited)

September 30, 2009 (expressed in Canadian dollars)

Closing of the Debt Settlements and the Financing is expected to occur shortly.

One of the creditors involved in the Debt Settlements is Banro Corporation ("Banro"), which currently holds 3,744,032 (or 14.35%) of the outstanding common shares of the Company. 31,689,955 of the Debt Shares are to be issued to Banro pursuant to its debt settlement agreement, such that upon closing Banro will own 35,433,987 common shares of the Company.

In November 2009 the Company announced that it has signed a Letter of Intent with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), whereby Rio Tinto will fund the exploration of certain parts (the "JV Property") of the Company's Tshikapa kimberlite project in the DRC. The JV Property does not include the ground covered by the ACACIA sprl exploration permits. The Letter of Intent proposes that Rio Tinto will have the right, under a staged earn-in arrangement, to earn a 75% interest in a joint venture company (the "JVCo") which would hold the ownership interests in the JV Property, with the Company retaining a 25% interest in the JVCo. The above proposed earn-in arrangement is subject to various conditions, including completion of due diligence and negotiation and execution of a definitive agreement between the parties. A drilling program on the JV Property is expected to commence in November 2009.

BRC DIAMONDCORE LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 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 nine month periods ended September 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 November 16, 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 Letter of Intent with Rio Tinto Mining and Exploration Limited, 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 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"), 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 and exploration of diamond properties in the DRC.

For the three and nine month periods ended September 30, 2009, the Company reported a net loss of \$4,879,249 (\$0.19 per share) and \$8,423,420 (\$0.32 per share) respectively (compared to a net loss of \$7,497,811 (or \$0.31 per share) and \$12,130,444 (or \$0.50 per share), for the three and nine month periods ended September 30, 2008 respectively).

The Company's accumulated deficit as at September 30, 2009 was \$117,313,987 (compared to \$108,890,567 as at December 31, 2008). The Company has a working capital deficit of \$10,861,224 as at September 30, 2009 and had a net decrease in cash of \$139,948 during the three month period ended September 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. 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, debt for equity swaps, 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.

General

South Africa

On July 3, 2009 Diamond Core Resources (Pty) Ltd ("Diamond Core") (which was the holding company for all of the Company's South African projects) 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 had been 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 counter claimed to River Corporate Finance for the return of the R2 million of this fee already paid.

An application for leave to appeal the liquidation order was 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. Final liquidators have been appointed but while the appeal is

being processed the liquidators may only secure the assets and no disposal or sale of the assets is possible without the approval of the shareholder of Diamond Core.

Effective September 30, 2009, the Company sold all of its shares in Diamond Core for nominal consideration, plus, if the offer of compromise referred to in the next sentence is approved by the court, for value of US\$500,000. The terms of the sale contemplate that the purchaser enters into an offer of compromise with the creditors of Diamond Core. The previously announced heads of agreement with KIG Mining Plc has been cancelled.

Having regard to the sale by the Company of 100% of the shares in Diamond Core, the financial accounts of Diamond Core including all its subsidiaries are no longer consolidated with the Company.

The Company's fixed assets located in South African now only consist of a portable recovery plant, constructed in three containers that had been built for one of the Company's operations in the DRC,(the Kwango alluvial project which the Company subsequently relinquished).

See Note 3 to the Company's September 30, 2009 financial statements for additional information regarding the assets and liabilities disposed of pursuant to the disposal of Diamond Core.

Democratic Republic of the Congo ("DRC")

The Company has 12 exploration permits remaining in the Tshikapa kimberlite project. Detailed geophysical surveys and stream sediment sampling have provided promising drill targets within these remaining permits which are covered by option agreements with Acacia sprl (6x), Caspian Oil & Gas (2x), Kings Mine, Investors Equity (2x) and Group Abba. Acacia has indicated that it wants to modify the option agreement with the Company (see the Company's October 15, 2009 press release).

Detailed sampling and 200m line spacing geophysical surveys have generated 24 targets, interpreted as kimberlite intrusions, and these have been earmarked for the next drilling phase. BRC had retained its drilling capabilities in Tshikapa where the drill and its support equipment have been mothballed. Preparations to prepare the drill for the proposed drilling program over some of these targets are underway and it is hoped to commence drilling in November. Surface texture analyses of the grains of certain of the targets suggest that a significant number of these of these are moderately abraded with many of the garnets displaying sub-kelyphitic surfaces. Several of the garnets show diagenetic alteration (DAF) features. Since the garnets are highly susceptible to diagenesis in this tropical environment it is not surprising that DAF features are seen. The presence of sub-kelyphitic surfaces on moderately abraded grains therefore suggest that these have been derived from a proximal source. These grains have now been submitted for microprobe analysis to assess the diamond potential of the area.

The grains obtained from the sediment stream sampling program from the King's Mine permit have now been submitted for surface texture work after which these will also be submitted for major element analyses.

The remaining exploration equipment which had been used in the Company's Kwangp project arrived from Tembo in Kinshasa during the quarter and has been stored in the Kinshasa Depot.

The Company's Tshikapa project is situated in the highly prospective "Kimberlite Emplacement Corridor" extending northeastward from the Kimberlite fields of the Lunda Norte Province in Angola. The area has produced well over 100 million carats of

diamonds; the results from stream samples taken in the area indicate the presence of promising kimberlitic indicators. Additional information with respect to the Tshikapa project is contained in a technical report dated March 31, 2009 and entitled "National Instrument 43-101 Technical Report on the Tshikapa Project of BRC DiamondCore Ltd. in the Democratic Republic of Congo". A copy of this report can be obtained from SEDAR at www.sedar.com.

In November 2009, the Company announced that it has signed a Letter of Intent with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), whereby Rio Tinto will fund the exploration of certain parts (the "JV Property") of the Company's Tshikapa project. The JV Property does not include the ground covered by the Acacia sprl exploration permits.

The Letter of Intent proposes that Rio Tinto will have the right, under a staged earn-in arrangement, to earn a 75% interest in a joint venture company (the "JVCo") which would hold the ownership interests in the JV Property, with the Company retaining a 25% interest in the JVCo.

The above proposed earn-in arrangement is subject to various conditions, including completion of due diligence and negotiation and execution of a definitive agreement between the parties.

A drilling program on the JV Property is expected to commence in November 2009.

Northern DRC Projects

The Company's projects in the northern DRC, consisting of 18 exploration permits, are part of the 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 or controls the exploration permits. The Company has earned other income through receiving monetary consideration from Rio Tinto in exchange for granting Rio Tinto exclusivity in the right to pursue joint venture agreements. 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.

Permit Holding

During the first quarter of 2009 the following exploration permits 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 permits 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 permits were relinquished in the second and third quarters of 2009.

QUALIFIED PERSON

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.

RESULTS OF OPERATIONS

For the nine month period ended September 30, 2009, the Company reported a net loss of \$8,423,000 or \$0.32 per share, compared to a net loss of \$12,130,444 (or \$0.50 per share), per share, reported for the nine month period ended September 30, 2008.

For the three month period ended September 30, 2009, the Company reported a net loss of \$4,879,249 (or \$0.19 per share), compared to a net loss of \$7,497,811 (or \$0.31 per share) incurred during the three month period ended September 30, 2008.

The items which impacted on the changes in the Company's financial results in 2009 as compared to 2008, include the following:

- the Company's operations in both South Africa and the DRC were on a care and maintenance basis for most of 2009 resulting in lower activity levels for the Company in 2009;
- the disposition of the Company's South African operations in the third quarter of 2009 resulted in such operations no longer being consolidated in the Company's financial statements (but also resulted in a significant loss from discontinued operations);
- the Company had a significant impairment of mineral properties in the third quarter of 2008;
- stock-based compensation decreased significantly in 2009 as compared to 2008; and
- foreign exchange gains/losses were significantly different in 2009 as compared to 2008.

See also "Summary of Quarterly Results" below for additional discussion regarding the changes in financial results.

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 third 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	2009	2009	2008
	3rd quarter	2nd quarter	1st quarter	4th quarter
Net loss in '\$'000	\$4,879	\$2,062	\$1,483	\$ 90,873
Net loss per share (basic and diluted)	\$0.19	\$0.08	\$0.06	\$ 3.70
	2008	2008	2008	2007
	3rd quarter	2nd quarter	1st quarter	4th quarter
Net loss in '\$'000	\$ 7,498	\$ 1,193	\$ 3,438	\$ 16
Net loss per share (basic and diluted)	\$ 0.31	\$ 0.05	\$ 0.17	\$ 0.01

In the third quarter of 2009 the loss of \$4,879,248 can be analysed into a loss of \$3,143,096 attributable to discontinued operations and \$1,736,152 attributable to continued operations. The loss per share is \$0.12 for discontinued operations and \$0.07 for continued operations.

During the third quarter of 2009, the Company's net loss was \$4,879,249 compared to a net loss of \$2,062,000 reported during the second quarter of 2009. The main components of the loss in the third quarter are the loss on the sale of Diamond Core of \$3,143,000 and the provision for doubtful debts of \$903,000 relating to the Company's former South African operations. Previously these debts were offset in the consolidation. 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. During the second quarter, 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 September 30, 2009, the Company had cash of \$32,000 and a working capital deficit of \$10,861,224 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 disposal of its bulk sampling activities in South Africa, the Company does not currently generate operating revenues. The Company's source of revenue has been the sale of exclusivity rights to future potential joint venture agreements with Rio Tinto.

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 the sale or renting of non-core assets, existing credit facilities, trade credit, leases, and the sale of exclusivity rights to joint venture agreements.

In November 2009, the Company announced that it has entered into agreements with certain of its creditors pursuant to which such creditors have agreed to accept common shares of the Company, to be issued from treasury by the Company at a price of \$0.20 per share, in satisfaction of indebtedness owed to them by the Company (the "Debt Settlements"). The total number of common shares to be issued by the Company to the creditors under the Debt Settlements is 43,317,330 shares (the "Debt Shares"), and the total amount of Company debt to be settled by such share issuances is \$8,663,466.

The Company also announced in November 2009 that it proposes to carry out a non-brokered private placement of up to 20,000,000 units of the Company (the "Units") at a price of \$0.05 per Unit for proceeds to the Company of up to \$1,000,000. Each Unit is to be comprised of one common share of the Company and one warrant of the Company, with each such warrant entitling the holder to purchase one common share of the Company at a price of \$0.066 for a period of four years. The Company intends to use the proceeds from this financing (the "Financing") for working capital and general corporate purposes. The financing may be entirely subscribed for by directors.

Closing of the Debt Settlements and the Financing is expected to occur shortly.

One of the creditors involved in the Debt Settlements is Banro Corporation ("Banro"), which currently holds 3,744,032 (or 14.35%) of the outstanding common shares of the Company. 31,689,955 of the Debt Shares are to be issued to Banro pursuant to its debt settlement agreement, such that upon closing Banro will own 35,433,987 common shares of the Company.

In November 2009, the Company announced that it has signed a Letter of Intent with Rio Tinto Mining and Exploration Limited ("Rio Tinto"), whereby Rio Tinto will fund the exploration of certain parts (the "JV Property") of the Company's Tshikapa kimberlite project in the DRC. The JV Property does not include the ground covered by the Acacia sprl exploration permits. The Letter of Intent proposes that Rio Tinto will have the right, under a staged earn-in arrangement, to earn a 75% interest in a joint venture company (the "JVCo") which would hold the ownership interests in the JV Property, with the Company retaining a 25% interest in the JVCo. The above proposed earn-in arrangement is subject to various conditions, including completion of due diligence and negotiation and execution of a definitive agreement between the parties. A drilling program on the JV Property is expected to commence in November 2009.

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP applicable to a going concern. In the first, second and third 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.

The Company had a loan facility established with a Canadian financial institution which bore interest at prime rate plus 1% per annum. The effective interest rate for the nine month period ended September 30, 2009 was 2.68% (December 31, 2008: 5.75%). At September 30, 2009, the balance of this short term debt was \$nil (December 31, 2008: \$6,172,317). This loan facility had been utilized to fund exploration activities in the DRC and interest of \$420,727 was capitalized to exploration cost. This loan facility to the financial institution, which had been guaranteed by Banro Corporation ("Banro"), a significant shareholder of the Company, was paid in full by a matching loan from Banro. This loan from Banro is being settled as part of the Debt Settlements (see the discussion above).

DEFERRED EXPLORATION EXPENDITURES

The following table provides a breakdown of the Company's deferred exploration expenditures for the three and nine month periods ended September 30, 2009.

DRC

Three month period Ended September 30, 2009	Kwango Project	Lubao Project	Tshikapa (Acacia) Project	Tshikapa (Candore) Project	Other Project s	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 6/30/2009	43	365	3,788	467	2,503	7,166
Administrative and office support	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Drilling	-	-	-	-	-	-
Field camp expenses	-	-	-	-	-	-
Permits & Surface taxes	-	-	-	-	-	-
Professional fees	-	-	-	-	-	-
Profit on sale of assets	-	-	-	-	-	-
Remote sensing	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-

Transport	-	-	-	-	-	-
Unrealised foreign exchange difference	(3)	(22)	(229)	(28)	(151)	(433)
Subtotal – third quarter of 2009	(3)	(22)	(229)	(28)	(151)	(433)
Balance 9/30/2009	40	343	3,559	439	2,352	6,733

Nine month period Ended September 30, 2009	Kwango Project	Lubao Project	Tshikapa (Acacia) Project	Tshikapa (Candore) Project	Other Projects	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance December 31, 2008	-	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	(3)	16	126	19	57	215
Subtotal – nine month period ended September 30, 2009	39	16	527	24	565	1,172
Balance 9/30/2009	40	343	3,559	439	2,352	6,733

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

South Africa

The Company disposed of all its South African projects in the third quarter.

OUTSTANDING SHARE DATA

The authorized share capital of the Company consists of an unlimited number of common shares. As at November 16, 2009, the Company had outstanding 26,091,310 common shares and stock options to purchase an aggregate of 3,098,142 common shares of the Company.

RELATED PARTY TRANSACTIONS

Balances Payable	September 30, 2009		December 31, 2008	
	\$'000		\$'000	
Macleod Dixon LLP ^(a)	\$	852	\$	745
Banro Corp. ^(b)		6,344		-
SFW Village ^(c)		212		-
AT Kondrat ^(d)		75		-
DK Madilo ^(e)		36		-
Scallan Project Facilitation (Pty) Ltd ^(f)		-		13
Sterling Portfolio Securities Inc. ^(g)		117		11
	\$	7,636	\$	769

Transactions	For the three month period ended		For the nine month period ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	\$'000	\$,000	\$'000	\$'000
Macleod Dixon LLP ^(a)	\$ 74	\$ 83	\$ 194	\$ 272
Banro Corp. ^(b)	6,344	-	6,344	(11)
SFW Village ^(c)	67	25	163	75
AT Kondrat ^(d)	25	25	75	75
DK Madilo ^(e)	12	12	36	36
Scallan Project Facilitation	-	58	-	58
Sterling Portfolio Securities Inc. ^(g)	16	-	16	-
	\$ 6,538	\$ 203	\$ 6,828	\$ 505

- a) During the three and nine month periods ended September 30, 2009, legal fees and related costs of \$74,000 and \$194,000 (September 30, 2008: \$83,000 and \$272,000) 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 development and exploration of gold properties in the DRC. During the three and nine month periods ended September 30, 2009, the Company obtained a loan from Banro of \$6,337,991 which was exclusively used to settle a loan with a financial institution. The balance was applied to general and office related expenses (September 30, 2008 : \$11,000 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. 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 or debts. Other than the loan from Banro, which is secured by a general security agreement and which bears interest at a rate of prime plus 1%, 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 former South African subsidiaries were subject to IFRS. Diamond Core had successfully adopted IFRS prior to the acquisition thereof by the Company and was reporting its statutory returns in South Africa in terms of IFRS. This will facilitate the adoption of IFRS, since the Company's 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.
- 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 exploration phase, accounting policy determinations that will be made leading in the Company's development phase, such as revenue recognition from joint venture agreements as an example, 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.

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

- A formal project structure including project governance;
- An estimate of required resources (combination of internal and external);
- A detailed timeline for fiscal 2009 and 2010;
- A proposed training program; and
- 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.

c) Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply to annual financial statements for fiscal years ending after September 30, 2009. Earlier adoption is permitted. 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, foreign currency translation 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, any 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 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 any resources may change management's recoverable amounts and depletion and amortization.

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 had accounted for its South African operations as self-sustaining and accounts for the DRC operations 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

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 nine month period ended September 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 are the sale of equity capital, or the offering by the Company of an interest in its properties to be earned by another party carrying out further exploration. There is no assurance that such sources of financing will be available on acceptable terms, if at all. In the event that commercial quantities of minerals are found on the Company's properties, the Company does not have the financial resources at this time to bring a mine into production.

The current financial climate is characterized by volatile and uncertain times. The uncertainty of forward looking statements is therefore greater in the current period than previous periods. Diamond prices have reduced significantly as a result of the economic downturn and any recovery could be accompanied by volatility.

The Company is aware that the credit crisis has limited the availability of traditional sources of project finance from banks.

All of the Company's projects are located in the DRC. 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 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, 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.

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:

	September 30, 2009 \$'000	December 31, 2008 \$'000
Financial Assets		
Held-for-trading, measured at fair value		
Cash	\$ 32	\$ 198
Restricted Cash	-	308
Loans and receivables measured at amortised cost		
Other assets	326	562
Financial Liabilities		
Other liabilities, measured at amortised cost		
Accounts payable and accrued liabilities	\$ 4,881	\$ 7,542
Debt	6,338	6,172
Lease	-	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 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 sale of option agreements, asset sales, existing credit facilities, leases, and debt and equity markets.

Weakening global economic conditions led to a significant weakness in exchange traded commodity prices, 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 and available credit facilities, 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. As reported above under "Liquidity and Capital Resources" the Company has succeeded in negotiating a debt for equity conversion with certain of its creditors.

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.

Management currently believes that based on its financial position and liquidity profile at September 30, 2009, the Company will be able to satisfy its current and long-term obligations. As at September 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 September 30, 2009 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 previously 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 nine month periods ended September 30, 2009, everything else being equal, a 5% increase or decrease in the exchange rate between the Canadian dollar and the US dollar would have resulted in a respective \$6,245 and \$151,563 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 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 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

During the first quarter of 2009, employees in the DRC were 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 were retrenched out of a total staff complement of 31. In addition two expatriate contracts were also discontinued. The present complement has been reduced to 10

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. A final decision is expected to be made by the TSX towards the end of November 2009. 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. 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.

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.