

# **Delrand Resources Limited**

**(formerly BRC DiamondCore Ltd.)**

## **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the three and nine month periods ended**

**September 30, 2011**

**(Expressed in Canadian dollars)**

**(Unaudited)**

### **NOTICE TO READER**

These interim condensed consolidated financial statements of Delrand Resources Limited (the "Company") as at and for the three and nine month periods ended September 30, 2011 have been prepared by and are the responsibility of the Company's management. These interim condensed consolidated financial statements have not been audited or reviewed by the Company's auditors.

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**Delrand Resources Limited**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian dollars - unaudited)

	Notes	September 30, 2011	December 31, 2010	January 1, 2010
		\$	\$	\$
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents		221,574	126,931	664,495
Prepaid expenses and other assets		34,333	21,713	163,175
<b>Total Current Assets</b>		<b>255,907</b>	<b>148,644</b>	<b>827,670</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	4	129	4,100	141,794
Exploration and evaluation	5	4,653,829	5,074,302	5,826,083
<b>Total Non-Current Assets</b>		<b>4,653,958</b>	<b>5,078,402</b>	<b>5,967,877</b>
<b>Total Assets</b>		<b>4,909,865</b>	<b>5,227,046</b>	<b>6,795,547</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities		525,145	834,176	1,027,172
Notes payable	7	-	400,493	377,884
Taxes payable		-	6,127	-
Due to related parties		94,994	106,029	-
<b>Total Current Liabilities</b>		<b>620,139</b>	<b>1,346,825</b>	<b>1,405,056</b>
<b>Non-current</b>				
<b>Future tax liability</b>		15,789	15,789	57,030
<b>Total Liabilities</b>		<b>635,928</b>	<b>1,362,614</b>	<b>1,462,086</b>
<b>Shareholders' Equity</b>				
Share capital	8	116,283,812	115,457,876	115,457,876
Contributed surplus		7,812,242	7,812,242	7,774,233
Deficit		(119,822,117)	(119,405,686)	(117,898,648)
<b>Total Shareholders' Equity</b>		<b>4,273,937</b>	<b>3,864,432</b>	<b>5,333,461</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>4,909,865</b>	<b>5,227,046</b>	<b>6,795,547</b>
<b>Common shares</b>				
Authorized		Unlimited	Unlimited	Unlimited
Issued and outstanding		49,704,341	89,408,640	89,408,640

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

**Delrand Resources Limited**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Expressed in Canadian dollars - unaudited)**

	Notes	For the three month period ended September 30, 2011	For the three month period ended September 30, 2010	For the nine month period ended September 30, 2011	For the nine month period ended September 30, 2010
		\$	\$	\$	\$
<b>Expenses</b>					
Consulting and professional fees		31,467	191,361	233,785	335,954
General and administrative		48,223	67,762	193,637	174,318
Share-based payment expense	9	-	-	-	73,116
Foreign exchange (gain) loss		(10,478)	1,010	(10,991)	3,370
<b>Loss from operations</b>		<b>(69,212)</b>	<b>(260,133)</b>	<b>(416,431)</b>	<b>(586,758)</b>
<b>Loss for the period</b>		<b>(69,212)</b>	<b>(260,133)</b>	<b>(416,431)</b>	<b>(586,758)</b>
<b>Comprehensive loss for the period</b>		<b>(69,212)</b>	<b>(260,133)</b>	<b>(416,431)</b>	<b>(586,758)</b>
Loss per share, basic and diluted		(0.00)	(0.00)	(0.01)	(0.01)

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

**Delrand Resources Limited**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(Expressed in Canadian dollars - unaudited)**

	Notes	Common shares		Contributed Surplus	Deficit	Total Shareholder's equity
		Number of shares	Amount			
<b>Balance at January 1, 2010</b>		89,408,640	\$ 115,457,876	\$ 7,774,233	\$ (117,898,648)	\$ 5,333,461
Net loss for the period					(586,758)	(586,758)
Share based compensation	9			95,255		95,255
<b>Balance at September 30, 2010</b>		89,408,640	115,457,876	7,869,488	(118,485,406)	4,841,958
Net loss for the period					(920,280)	(920,280)
Share based compensation				(57,246)		(57,246)
<b>Balance at December 31, 2010</b>		89,408,640	115,457,876	7,812,242	(119,405,686)	3,864,432
<b>Balance at January 1, 2011</b>		89,408,640	115,457,876	7,812,242	(119,405,686)	3,864,432
Net loss for the period					(416,431)	(416,431)
Share based compensation	9					
Share issue		10,000,000	825,936			825,936
Two to one share consolidation	8a	(49,704,299)				
<b>Balance at September 30, 2011</b>	*	49,704,341	116,283,812	7,812,242	(119,822,117)	4,273,937
* 2 to 1 consolidation of shares was implemented June 2011 after the share issue						

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

## Delrand Resources Limited

### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Expressed in Canadian dollars - unaudited)

	Notes	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2011
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Net loss for the period		(69,212)	(260,133)	(416,431)	(586,758)
Adjustments to reconcile loss to net cash used in operating activities					
Share based payments	9	-	-	-	73,116
Accrued interest in notes payable		-	-	8,000	-
Changes in non-cash working capital					
Prepaid expenses and other current assets		77	(3,802)	(12,620)	32,804
Taxes payable		-	-	(6,127)	-
Accounts payable and accrued liabilities		(69,501)	25,648	(309,032)	(120,425)
<b>Net cash flows from operating activities</b>		<b>(138,636)</b>	<b>(238,287)</b>	<b>(736,210)</b>	<b>(601,263)</b>
<b>Cash flows from investing activities</b>					
Expenditures on exploration and evaluation		(61,897)	225,425	83,336	190,476
Funds received from Rio Tinto		36,775	-	341,109	-
<b>Net cash used in investing activities</b>		<b>(25,122)</b>	<b>225,425</b>	<b>424,445</b>	<b>190,476</b>
<b>Cash flows from financing activities</b>					
Issue of shares		-	-	825,936	-
Repayment of notes payable	7	-	-	(408,493)	-
Due to related parties		45,380	95,695	(11,035)	(163,678)
<b>Net cash from financing activities</b>		<b>45,380</b>	<b>95,695</b>	<b>406,408</b>	<b>(163,678)</b>
<b>Net increase in cash during the period</b>		<b>(118,378)</b>	<b>82,833</b>	<b>94,643</b>	<b>(574,465)</b>
<b>Cash and cash equivalents, beginning of the period</b>		<b>339,952</b>	<b>7,197</b>	<b>126,931</b>	<b>664,495</b>
<b>Cash and cash equivalents, end of the period</b>		<b>221,574</b>	<b>90,030</b>	<b>221,574</b>	<b>90,030</b>

Supplemental cash flow information (Note 12)

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

## **Delrand Resources Limited**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**As at and for the three and nine months ended September 30, 2011**

**(Expressed in Canadian dollars - unaudited)**

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#### **1. CORPORATE INFORMATION**

The principal business of Delrand Resources Limited (the “Company”) is the acquisition and exploration of mineral properties in the Democratic Republic of the Congo (“DRC”). In June 2011, the Company effected a change in the name of the Company from BRC DiamondCore Ltd. to Delrand Resources Limited and a consolidation of the outstanding common shares of the Company on a two to one basis.

These interim condensed consolidated financial statements as at and for the three and nine month periods ended September 30, 2011 include the accounts of the Company and of its wholly-owned subsidiaries incorporated in the DRC, BRC DiamondCore Congo SPRL, and in South Africa, BRC Diamond South Africa (Proprietary) Limited.

The Company is a publicly traded company whose outstanding common shares are listed for trading on the Toronto Stock Exchange and the JSE Limited in Johannesburg, South Africa. The head office of the Company is located at 1 First Canadian Place, 100 King St. West, Suite 7070, Toronto, Ontario, M5X 1E3, Canada.

#### **2. BASIS OF PREPARATION**

These interim condensed consolidated financial statements are prepared on a going concern basis, 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. The Company has not generated revenues from operations. The Company incurred a net loss of \$69,212 and \$416,431 during the respective three and nine months ended September 30, 2011 and, as of that date, the Company’s deficit was \$119,822,117. These conditions along with other matters indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. As such, the Company’s ability to continue as a going concern depends on its ability to successfully raise additional financing for development of the mineral properties. Although the Company has been successful in the past in obtaining financing and subsequently raised financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms.

##### **a) Statement of compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

The Company’s annual consolidated financial statements previously were prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Canadian GAAP differs from IFRS in some areas. In preparing the IFRS statements, management amended certain accounting, valuation, and consolidation methods previously applied under Canadian GAAP.

The Company’s date of transition was January 1, 2010 (the “transition date”). An explanation of how the transition of previously prepared financial statements in accordance with Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 14. This note includes reconciliations of equity and profit/loss for comparative periods and of equity at the date of transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRS. The 2010 comparative figures have been restated to reflect the adjustments, except as described in the accounting policies. These interim condensed consolidated financial statements and comparative figures presented are in accordance with IFRS and have not been audited.

The policies applied in these interim condensed consolidated financial statements are presented in Note 3 and are based on IFRS expected to be effective as of December 31, 2011. The date the Company’s Audit Committee approved these financial statements was November 11, 2011.

## **Delrand Resources Limited**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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#### **b) Basis of measurement**

These interim condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets which are presented at fair value, as explained in the accounting policies set out in Note 3.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these interim condensed consolidated financial statements and in preparing the opening IFRS consolidated statements of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated. The exemptions taken in applying IFRS for the first time are set out in Note 14. The accounting policies have been applied consistently by all entities.

#### **a) Basis of Consolidation**

##### **i. Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This control is evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. The financial statements of subsidiaries are included in the consolidated financial statements of the Company from the date that control commences until the date that control ceases. Consolidation accounting is applied for all of the Company's subsidiaries.

##### **ii. Transactions eliminated on consolidation**

Inter-company balances, transactions, and any unrealized income and expenses, are eliminated in preparing the consolidated financial statements.

Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### **b) Use of Estimates and Judgments**

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim condensed consolidated financial statements is included in the following notes:

##### **i) Provisions and contingencies**

The amount recognized as provision, including legal, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore assessment of contingencies inherently involves the exercise

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of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

#### **ii) Exploration and evaluation expenditure**

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive loss during the period the new information becomes available.

#### **iii) Impairment**

Assets, including property, plant and equipment and exploration and evaluation, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the fair value often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, rehabilitation and restoration costs, future capital requirements and future operating performance. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed regularly by management.

#### **iv) Income taxes**

The Company is subject to income taxes in various jurisdictions and subject to various rates and rules of taxation. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, the Company has recognized deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable income relating to the same taxation authority and the same subsidiary against which the unused tax losses can be utilized. However, future realization of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped, including current and future economic conditions, production rates and production costs.

#### **v) Share-based payment transactions**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 9.

#### **vi) Decommissioning and environmental provisions**

The Company's operations are subject to environmental regulations in the DRC. Upon establishment of commercial viability of a site, the Company estimates the cost to restore the site following the completion of commercial activities and depletion of reserves. These future obligations are estimated by taking into consideration closure plans, known environmental impacts, and internal and external studies which estimate the activities and costs that will be carried out to meet the decommissioning and environmental obligations. Amounts recorded for decommissioning and environmental provisions are based on estimates of decommissioning and environmental costs which may not be incurred for several years or decades. The decommissioning and environmental cost estimates could change due to amendments in laws and

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regulations in the DRC. Additionally, actual estimated decommissioning and reclamation costs may differ from those projected as a result of an increase over time of actual remediation costs, a change in the timing for utilization of reserves and the potential for increasingly stringent environmental regulatory requirements.

#### **c) Foreign Currency Translation**

##### **Functional and presentation currency**

These interim condensed consolidated financial statements are presented in Canadian dollars (“\$”), which is the Company’s functional and presentation currency.

##### **Foreign currency transactions**

The functional currency for each of the Company’s subsidiaries is the currency of the primary economic environment in which the entity operates. Transactions entered into by the Company’s subsidiaries in a currency other than the currency of the primary economic environment in which they operate (their “functional currency”) are recorded at the rates ruling when the transactions occur except depreciation and amortization which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized in the consolidated statements of comprehensive loss. Foreign currency monetary assets and liabilities are translated at current rates of exchange with the resulting gain or losses recognized in the consolidated statements of comprehensive loss. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss. Non-monetary assets and liabilities are translated using the historical exchange rates. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

#### **d) Cash**

Cash and cash equivalents includes cash on hand, deposits held with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts.

#### **e) Financial Assets**

Financial assets are classified as either financial assets at fair value through profit or loss (“FVTPL”), loans and receivables, held to maturity investments (“HTM”), or available for sale financial assets (“AFS”), as appropriate at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. A financial asset is derecognized when contractual rights to the asset’s cash flows expire or if substantially all the risks and rewards of the asset are transferred.

##### **i. *Financial assets at FVTPL***

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated upon initial recognition as at FVTPL. A financial asset is classified as held for trading if (1) it has been acquired principally for the purpose of selling or repurchasing in the near term; (2) it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short term profit taking; or (3) it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in profit or loss. Transaction costs are expensed as incurred.

The Company has classified cash and cash equivalents as FVTPL.

## Delrand Resources Limited

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011

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ii. *Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivable.

Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost less losses for impairment. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the period in which they are identified. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statements of comprehensive loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

*HTM investments*

HTM financial instruments are initially measured at fair value. Subsequently, HTM financial assets are measured at amortized cost using the effective interest rate method, less any impairment losses. The Company did not classify any assets as HTM.

iii. *AFS financial assets*

Non-derivative financial assets not included in the above categories are classified as AFS financial assets. They are carried at fair value with changes in fair value generally recognized in other comprehensive loss and accumulated in the AFS reserve. Impairment losses are recognized in profit or loss. Purchases and sales of AFS financial assets are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the AFS reserve. On sale, the cumulative gain or loss recognized in other comprehensive loss is reclassified from the AFS reserve to profit or loss. The Company has not designated any of its financial assets as AFS.

iv. *Impairment of financial assets*

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate.

The carrying amount of all financial assets, excluding advances receivables and balances due from related parties, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. Associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. A provision for impairment is made in relation to advances receivable, and an impairment loss is recognized in profit and loss when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms. The carrying amount of the receivable is reduced through use of an allowance account.

With the exception of AFS equity instruments, if in a subsequent period the amount of impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the

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financial asset cannot exceed its amortized cost had the impairment not been recognized. Reversal for AFS equity instruments are not recognized in profit or loss.

v. *Effective interest method*

The effective interest method calculates the amortized cost of a financial instrument asset or liability and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or liability, or where appropriate, a shorter period. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

#### f) Financial Liabilities

Financial liabilities are classified as FVTPL, or other financial liabilities, as appropriate upon initial recognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

- i. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company's other financial liabilities include accounts payables and accrued liabilities and notes payable.
- ii. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments (including separated embedded derivatives) held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive loss. The Company does not have any financial liabilities classified as FVTPL.

#### g) Loss Per Share

Basic loss per share is computed by dividing the net loss applicable by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is computed by dividing the net loss by the sum of the weighted average number of common shares issued and outstanding during the reporting period and all additional common shares for the assumed exercise of stock options and warrants outstanding for the reporting period, if dilutive. The treasury method stock method is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the reporting period. As the Company is incurring losses, basic and diluted loss per share are the same since including the exercise of outstanding stock options and share purchase warrants in the diluted loss per share calculation would be anti-dilutive.

#### h) Property, Plant and Equipment ("PPE")

i. *Recognition and measurement*

Items of PPE are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, directed labor and any other cost directly attributable to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company. Assets in the course of construction are capitalized in the capital construction in progress category and transferred to the appropriate category of PPE upon completion. When components of an asset have different useful lives, depreciation is calculated on each separate component.

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### *ii. Subsequent costs*

The cost of replacing part of an item of PPE is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized and included in net loss. If the carrying amount of the replaced component is not known, it is estimated based on the cost of the new component less estimated depreciation. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

#### *iii. Depreciation*

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed to determine whether a component has an estimated useful life that is different from that of the remainder of that asset, in which case that component is depreciated separately. Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of each item or component of an item of PPE as follows:

- |                                  |                    |
|----------------------------------|--------------------|
| • Furniture and office equipment | two to seven years |
| • Vehicles                       | four years         |
| • Computer equipment             | three years        |
| • Exploration and mining assets  | two to four years  |

Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if appropriate. Depreciation commences when an asset is available for use. Changes in estimates are accounted for prospectively.

#### *iv. Gains and losses*

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of the PPE, and are recognized net within other income/expenses in profit or loss.

#### *v. Repairs and maintenance*

Repairs and maintenance costs are charged to expense as incurred, except major inspections or overhauls that are performed at regular intervals over the useful life of an asset is capitalized as part of PPE.

#### *vi. De-recognition*

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in net earnings (loss) in the period the item is derecognized.

## **i) Exploration and Evaluation Assets**

All direct costs related to exploration and evaluation of mineral properties, net of incidental revenues, are capitalized under exploration and evaluation assets. Exploration and evaluation expenditures include such costs as acquisition of rights to explore; sampling, trenching and surveying costs; costs related to topography, geology, geochemistry and geophysical studies; drilling costs and costs in relation to technical feasibility and commercial viability of extracting a mineral resource.

A regular review of each property is undertaken to determine the appropriateness of continuing to carry forward costs in relation to exploration and evaluation of mineral properties. Should the carrying value of the expenditure not yet amortized exceed its estimated recoverable amount in any year, the excess is written off to the consolidated statements of comprehensive loss.

## **Delrand Resources Limited**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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#### **j) Impairment of Non-financial Assets**

The Company's PPE is assessed for indication of impairment at each consolidated statements of financial position date. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or the Company's assets. If this is the case, the individual assets are grouped together into cash generating units ("CGU") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statements of comprehensive loss so as to reduce the carrying amount to its recoverable amount (i.e., the higher of fair value less cost to sell and value in use). Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources and operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

The Company has not recognized impairment of tangible assets during the three and nine month periods ended September 30, 2011 and September 30, 2010 (year ended December 31, 2010 - \$740,975).

#### **k) Income Taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in profit and loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute current income tax assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred taxation is provided on all qualifying temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

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#### **l) Share-Based Payments**

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. The number of forfeitures likely to occur is estimated on grant date. Any consideration paid by the optionee on exercise of equity-settled share-based payments is credited to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments.

Compensation expense on stock options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested using the fair value method and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

#### **m) Provisions and Contingencies**

Provisions are recognized when a legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate current market-based pre-tax discount rate. The increase in the provision due to passage of time is recognized as interest expense.

When a contingency substantiated by confirming events, can be reliably measured and is likely to result in an economic outflow, a liability is recognized as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

#### **n) Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

#### **o) New Pronouncements Adopted**

March 31, 2011 was the Company's first reporting period under IFRS. Accounting standards effective for periods beginning on January 1, 2011 have been adopted as part of the transition to IFRS.

#### **p) Recent Pronouncements Issued**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

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IFRS 9 *Financial instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

A revised version of IAS 24 *Related party disclosures* ("IAS 24") was issued by the IASB on November 4, 2009. IAS 24 requires entities to disclose in their consolidated financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this issuance did not have a significant impact on the Company's consolidated financial statements.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidated - Special Purpose Entities" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11") establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes the current IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities - Non-Monetary Contributions by Venturers" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 13 *Fair Value Measurements* ("IFRS 13") defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 7 *Financial instruments: disclosures* ("IFRS 7") The Accounting Standards Board ["AcSB"] approved the incorporation of the IASB's amendments to IFRS 7 *Financial Instruments: Disclosures* and the related amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* into Part I of the Handbook. These amendments were made to Part I in January 2011 and are effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. The amendments relate to required disclosures for transfers of financial assets to help users of the financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements.

An amendment to IAS 1, *Presentation of financial statements* was issued by the IASB in June 2011. The amendment requires separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future, such as foreign currency differences on disposal of a foreign operation, if certain conditions are met from those that would never be reclassified to profit or loss. The effective date is July 1, 2012 and earlier adoption is permitted. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

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IAS 27, *Separate financial statements* ("IAS 27") was re-issued by the IASB in May 2011 to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The consolidation guidance will now be included in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

IAS 28, *Investments in associates and joint ventures* ("IAS 28") was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

#### 4. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment are summarized as follows:

	Notes	Exploration assets	Computer equipment	Vehicles	Furniture and office equipment	Total
		\$	\$	\$	\$	\$
<b>Cost</b>						
Balance at January 1, 2010		316,476	28,659	254,436	18,106	617,677
Additions		-	-	-	-	-
Disposals		(207,371)	-	(94,323)	(1,255)	(302,949)
Balance at December 31, 2010		109,105	28,659	160,113	16,851	314,728
Additions		-	-	-	-	-
Disposals		-	-	-	-	-
<b>Balance at September 30, 2011</b>		<b>109,105</b>	<b>28,659</b>	<b>160,113</b>	<b>16,851</b>	<b>314,728</b>
<b>Accumulated Depreciation</b>						
Balance at January 1, 2010		216,384	19,478	225,820	14,200	475,882
Depreciation for the year		34,398	6,985	28,616	2,686	72,685
Disposals		(142,578)	-	(94,323)	(1,040)	(237,941)
Balance at December 31, 2010		108,204	26,463	160,113	15,846	310,626
Depreciation for the period		901	2,067	-	1,005	3,973
Disposals		-	-	-	-	-
<b>Balance at September 30, 2011</b>		<b>109,105</b>	<b>28,530</b>	<b>160,113</b>	<b>16,851</b>	<b>314,599</b>
<b>Carrying amounts</b>						
Balance at January 1, 2010		100,092	9,181	28,616	3,906	141,794
Balance at December 31, 2010		901	2,196	-	1,005	4,100
Balance at September 30, 2011		-	129	-	-	129

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## 5. EXPLORATION AND EVALUATION ASSETS

The following table summarizes the Company's tangible exploration and evaluation expenditures with respect to its properties in the DRC:

	Notes	Tshikapa Project	Lubao	Tshikapa (Candore)	Northern DRC Project	Total
<b>Cost</b>						
Balance per IFRS as at January 1, 2010		\$ 2,901,003	\$ 325,416	\$ 415,559	\$ 2,184,105	\$5,826,083
Additions		120,938	-	-	(131,744)	(10,806)
Impairment		-	(325,416)	(415,559)	-	(740,975)
<b>Balance as at December 31, 2010</b>		<b>3,021,941</b>	<b>-</b>	<b>-</b>	<b>2,052,361</b>	<b>5,074,302</b>
Additions		124,586	-	-	(545,059)	(420,473)
<b>Balance as at September 30, 2011</b>		<b>3,146,527</b>	<b>-</b>	<b>-</b>	<b>1,507,302</b>	<b>4,653,829</b>

There are \$2,219 of intangible exploration and evaluation expenditures as at January 1, 2010 (December 31, 2010: \$2,219).

There have not been any additions or disposals since January 1, 2010.

#### a. Tshikapa Project

The Tshikapa project is located in the south-western part of the Kasai Occidental province of the DRC near the town of Tshikapa. The Tshikapa project is located within the so-called Tshikapa triangle, bordering the Kasai River in the east, the Loange River in the west and the Angolan border in the south. The properties also lie within the broader kimberlite emplacement corridor which extends from known kimberlite pipes located in Angola. The Tshikapa diamond field has been extensively mined by alluvial diamond companies and small-scale miners, and it is estimated that it has produced over 100 million carats of diamonds since 1912. The Company has focused its attention on the Tshikapa triangle through nine exploration permits covering an area of 1,429 km<sup>2</sup>. One of these permits is held by the Company's wholly-owned DRC subsidiary and the other eight permits are controlled through option agreements with the permit holders.

#### b. Northern DRC Project

The Company's northern DRC diamond project is located in Orientale Province of the DRC and consists of 46 exploration permits, two of which are held by the Company directly through its DRC subsidiary and the balance of which are held through an option agreement with the holder of the permits. Rio Tinto Mining and Exploration Limited ("Rio Tinto") is also party to this agreement. Under this agreement, funding for the exploration of the areas covered by the permits is provided by Rio Tinto. Funds received from Rio Tinto under this agreement are deducted from exploration and evaluation expenditures in the Company's statement of financial position. Assuming ongoing satisfactory exploration results, the Company will acquire a 30% interest in the said permits subject to certain conditions. The 44 exploration permits under option cover an area of 7,313 km<sup>2</sup>. The two additional exploration permits held by the Company's DRC subsidiary cover an area of 749 km<sup>2</sup> directly north of the optioned ground.

During the year ended December 31, 2010, the Company decided to discontinue its Lubao and Candore projects which resulted in an impairment loss of \$740,975.

#### c. In April 2011, the Company sold the containerized bulk sampling plant that had been constructed for the alluvial deposits on the Kwango River in southern DRC. The Kwango project had previously been abandoned by the Company and the related licences relinquished when it was concluded that the project would not be economically viable. The gross proceeds from the sale of the plant were US\$575,000.

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## **6. SEGMENTED REPORTING**

The Company has one operating segment: the acquisition, exploration and development of mineral properties located in the DRC. The operations of the Company are located in two geographic locations, Canada and the DRC. All of the items of property, plant and equipment and exploration and evaluation assets in the Company's statements of financial position as at September 30, 2011, December 31, 2010 and January 1, 2010 are located in the DRC.

## **7. NOTES PAYABLE**

In December 2010, the Company entered into two promissory notes payable (the "Notes") in amounts of \$100,000 and \$300,000. The Notes bore simple interest at a rate of 5% per annum and were unsecured and due on demand. The fair value approximated the carrying value as at December 31, 2010. The notes were repaid in May 2011 including accrued interest of \$8,493.

## **8. SHARE CAPITAL**

### **a) Authorized**

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

The holders of the common shares are entitled to receive notice of and to attend all meetings of the shareholders of the Company and shall have one vote for each common share held at all meetings of the shareholders of the Company. The holders of the common shares are entitled to (a) receive any dividends as and when declared by the board of directors, out of the assets of the Company properly applicable to the payment of dividends, in such amount and in such form as the board of directors may from time to time determine, and (b) receive the remaining property of the Company in the event of any liquidation, dissolution or winding-up of the Company.

On May 11, 2011 the Company closed a non-brokered private placement of 7,500,000 units of the Company at a price of \$0.08 per unit for proceeds of \$600,000, and on May 27, 2011 the Company closed a non-brokered private placement of 2,500,000 units of the Company at a price of \$0.10 per unit for proceeds of \$250,000. Each of the said units was comprised of one common share of the Company and one warrant of the Company entitling the holder to purchase one common share of the Company at a price of \$0.11 for a period of three years from the date of issuance of the warrant. The purchasers of the units under the May 27, 2011 private placement were directors and officers of the Company.

In June 2011 the Company consolidated its outstanding common shares on a two to one basis. Immediately prior to the consolidation, the Company had 99,408,640 common shares outstanding (December 31, 2010: 89,408,640, January 1, 2010: 89,408,640). Upon effecting the consolidation, and as of September 30, 2011, the Company had 49,704,341 common shares outstanding.

### **b) Share purchase warrants**

The Company's outstanding warrants have been adjusted to reflect the two to one share consolidation that occurred in June 2011 (see Note 8a). As at September 30, 2011, the Company had outstanding warrants to purchase 15,000,000 (December 31, 2010: 20,000,000) common shares of the Company. Of the 15,000,000 warrants outstanding, 10,000,000 are exercisable at a price of \$0.132 per share until November 2013 and the remaining 5,000,000 are exercisable at a price of \$0.22 per share until May 2014.

### **c) Loss per share**

Loss per share was calculated on the basis of the weighted average number of common shares outstanding for the three and nine month periods ended September 30, 2011, amounting to 47,245,529 (three and nine months ended September 30, 2010: 89,408,640) common shares. Diluted loss per share was calculated using the treasury stock method. Total stock options for the three and nine months ended September 30, 2011 of 1,040,000 (three and nine months ended September 3, 2010: 2,280,000) and warrants of 15,000,000 (three and nine months ended September 30, 2010: 20,000,000) were excluded from the calculation of diluted loss per share as their effect would have been anti-dilutive.

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## 9. SHARE-BASED PAYMENTS

In August 2011, the Company's board of directors established a new stock option plan for the Company (the "New Plan"). In establishing the New Plan, the Board of Directors also provided that no additional stock options may be granted under the Company's other stock option plan (the "Old Plan") and terminated the Old Plan effective upon the exercise, expiry, termination or cancellation of all of the currently outstanding stock options that were granted under the Old Plan.

Under the New Plan, non-transferable options to purchase common shares of the Company may be granted by the Company's Board of Directors to any director, officer, employee or consultant of the Company or any subsidiary of the Company. The New Plan contains provisions providing that the term of an option may not be longer than ten 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 of Directors makes a specific determination otherwise, stock options granted under the New Plan and all rights to purchase Company shares pursuant thereto shall expire and terminate immediately upon the optionee who holds such stock options 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. Stock options granted pursuant to the New Plan vest as follows: 75% of the stock options vest on the 12 month anniversary of their grant date and the remaining 25% of such stock options vest on the 18 month anniversary of their grant date. The total number of common shares of the Company issuable upon the exercise of all outstanding stock options granted under the New Plan shall not at any time exceed 12% of the total number of outstanding common shares of the Company, from time to time.

The Company's outstanding stock options have been adjusted to reflect the two to one share consolidation that was implemented by the Company in June 2011. As at September 30, 2011, the Company had outstanding under the Old Plan stock options to acquire 1,040,000 (December 31, 2010 - 2,280,000) common shares of the Company at a weighted-average exercise price of \$4.59 (December 31, 2010 - \$2.42) per share. There are currently no stock options outstanding under the New Plan.

The following tables summarize information about stock options:

For the nine months ended September 30, 2011:

Exercise Price Range (Cdn\$)	Opening Balance	During the Period				Closing Balance	Weighted average remaining	Vested & Exercisable	Unvested
		Granted	Exercised	Expired	Forfeited				
2.10 - 5.00	800,000	-	-	-	-	800,000	1.91	800,000	-
5.20 - 7.50	100,000	-	-	(100,000)	-	-	-	-	-
7.52 - 16.00	240,000	-	-	-	-	240,000	0.64	240,000	-
	1,140,000	-	-	(100,000)	-	1,040,000		1,040,000	-
Weighted Average Exercise Price (Cdn\$)**	\$ 2.42	\$ -	\$ -	\$ 7.50	\$ -	\$ 4.59		\$ 4.59	\$ -

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For the year ended December 31, 2010:

Exercise Price Range (Cdn\$)	Opening Balance	During the Period				Closing Balance	Weighted average remaining	Vested & Exercisable	Unvested
		Granted	Exercised	Expired	Forfeited				
1.05 - 2.50	2,261,400	-	-	466,400	195,000	1,600,000	2.66	1,600,000	-
2.60 - 3.75	200,000	-	-	-	-	200,000	0.49	200,000	-
3.76 - 8.00	480,000	-	-	-	-	480,000	1.39	480,000	-
	2,941,400	-	-	466,400	195,000	2,280,000		2,280,000	-
Weighted Average Exercise Price (Cdn\$)	\$ 2.34	-	-	\$ 1.76	\$ 1.05	\$ 2.42		\$ 2.42	-

For the nine months ended September 30, 2010:

Exercise Price Range (Cdn\$)	Opening Balance	During the Period			Closing Balance	Weighted average	Vested & Exercisable	Unvested
		Granted	Exercised	Expired				
1.05 - 2.50	2,261,400	-	-	466,400	1,795,000	2.11	1,795,000	-
2.60 - 3.75	200,000	-	-	-	200,000	0.75	200,000	-
3.76 - 8.00	480,000	-	-	-	480,000	0.40	480,000	-
	2,941,400	-	-	466,400	2,475,000	3.25	2,475,000	-
Weighted Average Exercise Price (Cdn\$)	\$ 2.34	-	-	\$ 2.47	\$ 2.31		\$ 2.31	-

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

During the three and nine month periods ended September 30, 2011, the Company recognized in the statement of comprehensive loss as an expense \$nil (three and nine months ended September 30, 2010 \$nil and \$132,000 respectively) representing the fair value at the date of grant of stock options previously granted to employees, directors and officers under the Company's Stock Option Plan. The weighted average fair value of stock options issued was estimated at \$1.87 per share option at the grant date using the Black-Scholes option-pricing model. In addition, an amount of \$nil for the nine month period ended September 30, 2011 (year ended December 31, 2010: \$8,893) related to stock options issued to employees of the Company's subsidiary in the DRC was capitalized to exploration and evaluation assets.

These amounts were credited accordingly to contributed surplus in the consolidated statements of financial position.

#### Replacement options

In connection with the acquisition by the Company of all of the outstanding shares of Diamond Core Resources Limited ("Diamond Core") on February 11, 2008, 617,710 (the "Replacement Options") stock options were issued by the Company to

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employees of Diamond Core to substitute for their stock options in Diamond Core. Diamond Core was subsequently disposed of by the Company. As at September 30, 2011, there were 70,752 Replacement Options outstanding (December 31, 2010: 141,503).

## 10. RELATED PARTY TRANSACTIONS

### a) Key Management Remuneration

The Company's related parties include key management. Key management includes executive directors and non-executive directors. The remuneration of the key management of the Company as defined above, during the three and nine months ended September 30, 2011 and 2010 was as follows:

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Salaries	\$ 153,675	\$ 114,240	\$ 200,305	\$ 205,933
	\$ 153,675	\$ 114,240	\$ 200,305	\$ 205,933

### b) Other Related Parties

During the three and nine month periods ended September 30, 2011, legal expenses of \$8,610 and \$29,739 (three and nine month periods ended September 30, 2010: \$14,808 and \$95,176), incurred in connection with general corporate matters, were paid to a law firm of which a director and officer of the Company was a partner until February 2011. As at September 30, 2011, \$54,380 (December 31, 2010 - \$90,778) owing to this legal firm was included in accounts payable.

As at September 30, 2011, an amount of \$83,334 was owed to two directors of the Company representing consulting fees (December 31, 2010: \$102,311). During the three and nine month periods ended September 30, 2011, consulting fees of \$50,000 and \$150,000, respectively were incurred to the two directors (three and nine month periods ended September 30, 2010: \$50,000 and \$150,000 respectively to the two directors).

As at September 30, 2011, an amount of \$11,660 (December 31, 2010: \$3,719) was owed to Banro Corporation ("Banro"). During the three and nine months ended September 30, 2011, common expenses in the DRC were incurred in the amounts of \$nil and \$7,941. Banro owns 17,716,994 common shares of the Company, representing a 35.65% interest in the Company. During the year ended December 31, 2010, a drill rig was sold to Banro by the Company for gross proceeds of \$154,964.

On May 27, 2011 the Company closed a non-brokered private placement of 2,500,000 units of the Company at a price of \$0.10 per unit for proceeds of \$250,000. The purchasers of the units under this private placement were directors and officers of the Company (see Note 8a).

All amounts due to related parties are unsecured, non-interest bearing and due on demand. All transactions are in the normal course of operations and are measured at the exchange value.

## 11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### a) Fair value of financial assets and liabilities

The consolidated statements of financial position carrying amounts for cash and cash equivalents, prepaid expenses and other assets, accounts payable and accrued liabilities and notes payable 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.

The following presents the fair value and carrying value of the Company's financial instruments:

## Delrand Resources Limited

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	Classification	Measurement	30-Sep-11	31-Dec-10
<b>Financial assets</b>				
	Held-for-			
Cash and cash equivalents	Trading	Fair value	\$221,574	\$126,931
Prepaid expenses and other assets	Loans and receivables	Amortized cost	34,334	21,713
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	\$525,145	\$834,176
Notes payable	Other liabilities	Amortized cost	-	400,493
Taxes payable	Other liabilities	Amortized cost	-	6,127
Due to related parties	Other liabilities	Amortized cost	94,994	106,029

#### Fair value hierarchy

The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and 2 during the reporting period. The fair values of financial assets and liabilities carried at amortized cost are approximated by their carrying values. Cash is ranked Level 1 as the market value is readily observable. The carrying value of cash approximates fair value as maturities are less than three months. Notes payable is ranked level 2 as it is based on similar loans in the market.

#### b) Risk Management Policies

The Company is sensitive to changes in commodity prices and foreign-exchange. 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.

#### c) Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar or other foreign currencies will affect the Company's operations and financial results. A portion of the Company's transactions are denominated in United States dollars, Congolese francs and South African rand. The Company is also exposed to the impact of currency fluctuations on its monetary assets and liabilities. The Company's functional currency is the Canadian dollar. The majority of major expenditures are transacted in US dollars. The Company maintains the majority of its cash in Canadian dollars but it does hold balances in US dollars. Significant foreign exchange gains or losses are reflected as a separate component of the consolidated statement of comprehensive loss. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

## **Delrand Resources Limited**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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d) 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 in Canada, the DRC and South Africa 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.

e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company attempts to ensure that there is sufficient cash to meet its liabilities when they are due and manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. The Company's liquidity requirements are met through a variety of sources, including cash, existing credit facilities and equity capital markets. In light of market conditions, the Company 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 financial position and maintain its liquidity position.

f) Mineral Property Risk

The Company's operations in the DRC are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on the Company's activities or may result in impairment in or loss of part or all of the Company's assets.

g) Market Risk

Market risk is the potential for financial loss from adverse changes in underlying market factors, including foreign-exchange rates, commodity prices, interest rates and stock based compensation costs. 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) Interest rate risk

Interest rate risk is the potential impact on any Company earnings due to changes in bank lending rates and short term deposit rates. The Company is not exposed to significant interest rate risk other than cash flow interest rate risk on its cash. The Company does not use derivative instruments to reduce its exposure to interest rate risk. A fluctuation of interest rates of 1% would not affect significantly the fair value of cash.

i) 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 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 mineral properties. The Company relies on title opinions by legal counsel who base such opinions on the laws of countries in which the Company operates.

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#### j) Country risk

The DRC is a developing country and as such, the Company's exploration projects in the DRC could be adversely affected 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 factors such as DRC government regulations with respect to foreign 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.

#### k) Capital Management

The Company manages its cash, common shares, warrants and stock options as capital. 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; 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 significant changes to the Company's approach to capital management during the nine month period ended September 30, 2011.

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

	September 30, 2011	December 31, 2010
Cash and cash equivalents	\$ 221,574	\$ 126,931
Share capital	\$ 116,283,812	\$ 115,457,876
Deficit	\$ (119,822,117)	\$ (119,405,686)

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## 12. SUPPLEMENTAL CASH FLOW INFORMATION

During the periods indicated the Company undertook the following significant non-cash transactions:

	Note	Three months ended		Nine months ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Depreciation included in exploration and evaluation assets	5	\$ 511	\$ 11,115	\$ 3,973	\$ 66,562
Stock-based compensation included in exploration and evaluation assets	9	\$ -	\$ 40,126	\$ -	\$ 40,126
Interest paid		\$ -	\$ -	\$ -	\$ -
Taxes paid		\$ -	\$ 6,459	\$ 6,127	\$ 6,459

## 13. COMMITMENTS AND CONTINGENCIES

The Company is committed to the payment of surface fees and taxes. For the year ended December 31, 2011, these fees and taxes are estimated to be \$127,981 (US\$ 132,000) compared to \$109,409 (US\$ 110,000) incurred in the year ended December 31, 2010. The surface fees and taxes are required to be paid annually under the DRC Mining Code in order to keep exploration permits in good standing.

Six of the exploration permits comprising part of the Company's Tshikapa project in the DRC are held through an option agreement with Acacia SPRL. Acacia SPRL has advised the Company of its wish to modify the option agreement. The Company continues its discussions with Acacia SPRL and is optimistic of reaching an agreement that is satisfactory for both parties.

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

### *Labour disputes*

The Company is in dispute with two of its previous directors and officers. One of the individuals had applied in 2008 for a summary judgment against the Company in the Witwatersrand Local Division of the High Court of South Africa in respect of a dispute relating to a settlement agreement pertaining to his departure. The application for summary judgment was dismissed and the Company was granted leave to defend the claim. This individual has not taken further steps to progress that matter. However, in October 2010, almost two years after the original claim, the same former director and officer instituted fresh proceedings against the Company. He has repeated the claim made previously, but this time in a summons lodged before the North Gauteng High Court in South Africa. This former director and officer is claiming he is owed payment of 1.2 million South African rand plus interest. The other individual has referred two disputes to the Commission for Conciliation Mediation and Arbitration in Johannesburg, South Africa and an action to the High Court in that same jurisdiction. He elected to withdraw an application for summary judgment. The Company is defending all these actions.

## 14. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 1, *First Time Adoption of International Financial Reporting Standards*, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-

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time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statement in accordance with Canadian GAAP.

In preparing the Company's opening IFRS consolidated statements of financial position, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with previous Canadian GAAP. The IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS are as follows:

a) *Share-based payment transactions*

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and that vest before the transition date. As a result of applying this exemption, the Company has applied the provision of IFRS 2 to all outstanding equity instruments that were unvested prior to the date of transition to IFRS.

b) *Deemed Cost of Exploration and Evaluation Assets*

The Company has elected not to retrospectively apply IFRS 36 to the previous impairments that have been recorded by the Company. Per IFRS 1, the Company has taken an election to deem all exploration and evaluation assets at cost.

c) *Estimates*

The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Company has not used hindsight to create or revise estimates.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption has not changed the Company's actual cash flows, it has resulted in changes to the Company's consolidated statement of financial position and statement comprehensive loss. The statements of comprehensive loss have been changed to comply with IAS 1 *Presentation of Financial Statements*. The Canadian GAAP consolidated balance sheets as at January 1, 2010 and December 31, 2010, the consolidated statements of operations and other comprehensive loss for the three and nine month periods ended September 30, 2010 as well as the consolidated statement of cash flows for the three and nine month periods September 30, 2010 have been reconciled to IFRS, with a summary of the most significant changes in share-based payments as follows:

a) *Share Based Payments*

Under IFRS 2 *Share Based Payments*, each tranche of an award with different graded vesting is accounted for as a separate award and the resulting fair value is amortized over the vesting period of the respective tranches. Under Canadian GAAP, the Company was accounting for these as a single award. In addition, under IFRS 2, the Company is required to estimate the number of forfeitures likely to occur on grant date and reflect this in the share-based payment expense revising for actual experiences in subsequent periods. Under Canadian GAAP, forfeitures were recognized as they occurred.

The impact of adjustments relates to share based payments on the Company's consolidated statement of financial position is as follows:

	December 31, 2010	September 30, 2010	January 1, 2010
	\$	\$	\$
Exploration and evaluation	(739)	(739)	17,248
	(739)	(739)	17,248
Contributed surplus	(3,156)	(3,156)	73,715
Deficit	2,417	2,417	(56,467)
	(739)	(739)	17,248

## Delrand Resources Limited

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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The Canadian GAAP consolidated balance sheet as at January 1, 2010 has been reconciled to IFRS as follows:

		January 1, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents		\$ 664,495	\$ -	\$ 664,495
Prepaid expenses and other assets		163,175	-	163,175
<b>Total Current Assets</b>		<b>827,670</b>	<b>-</b>	<b>827,670</b>
<b>Non-Current Assets</b>				
Capital assets		141,794	-	141,794
Mineral properties and deferred exploration expenditures		5,808,835	17,248	5,826,083
<b>Total Non-Current Assets</b>		<b>5,950,629</b>	<b>17,248</b>	<b>5,967,877</b>
<b>Total Assets</b>		<b>6,778,299</b>	<b>17,248</b>	<b>6,795,547</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities		1,027,172	-	1,027,172
Accrued liabilities		377,884	-	377,884
<b>Total Current Liabilities</b>		<b>1,405,056</b>	<b>-</b>	<b>1,405,056</b>
<b>Non-current</b>				
Future tax liability		57,030	-	57,030
<b>Shareholders' Equity</b>				
Share capital		115,457,876	-	115,457,876
Contributed surplus		7,700,518	73,715	7,774,233
Deficit		(117,842,181)	(56,467)	(117,898,648)
<b>Total Shareholders' Equity</b>		<b>5,316,213</b>	<b>17,248</b>	<b>5,333,461</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>6,778,299</b>	<b>17,248</b>	<b>6,795,547</b>



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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011

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The Canadian GAAP consolidated balance sheet as at December 31, 2010 has been reconciled to IFRS as follows:

		December 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Assets</b>				
<b>Current Assets</b>				
Cash		\$ 126,931	\$ -	\$ 126,931
Prepays expenses and other current assets		21,713	-	21,713
<b>Total Current Assets</b>		<b>148,644</b>	<b>-</b>	<b>148,644</b>
<b>Non-Current Assets</b>				
Capital assets		4,100	-	4,100
Mineral properties and deferred exploration expenditures		5,075,041	(739)	5,074,302
<b>Total Non-Current Assets</b>		<b>5,079,141</b>	<b>(739)</b>	<b>5,078,402</b>
<b>Total Assets</b>		<b>5,227,785</b>	<b>(739)</b>	<b>5,227,046</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities		834,176	-	834,176
Note payable		400,493	-	400,493
Taxes payable		6,127	-	6,127
Due to related parties		106,029	-	106,029
<b>Total Current Liabilities</b>		<b>1,346,825</b>	<b>-</b>	<b>1,346,825</b>
<b>Non-current</b>				
Future income tax liabilities		15,789	-	15,789
<b>Total Liabilities</b>		<b>1,362,614</b>	<b>-</b>	<b>1,362,614</b>
<b>Shareholders' Equity</b>				
Capital stock		115,457,876	-	115,457,876
Contributed surplus		7,815,398	(3,156)	7,812,242
Deficit		(119,408,103)	2,417	(119,405,686)
<b>Total Shareholders' Equity</b>		<b>3,865,171</b>	<b>(739)</b>	<b>3,864,432</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>5,227,785</b>	<b>(739)</b>	<b>5,227,046</b>

## Delrand Resources Limited

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011

(Expressed in Canadian dollars - unaudited)

The Canadian GAAP consolidated statements of operations and other comprehensive loss for the three and nine month periods ended September 30, 2010 have been reconciled to IFRS as follows:

	Notes	Three Months Ended September 30, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>				
Professional fees and consulting fees		\$ 191,361	\$ -	\$ 191,361
General and administrative		67,762	-	67,762
Share based payments		-	-	-
Foreign exchange (gain) loss		1,010	-	1,010
<b>Loss from operations</b>		<b>(260,133)</b>	<b>-</b>	<b>(260,133)</b>
<b>Loss for the period</b>		<b>(260,133)</b>	<b>-</b>	<b>(260,133)</b>
<b>Comprehensive loss for the period</b>		<b>\$ (260,133)</b>	<b>\$ -</b>	<b>\$ (260,133)</b>
Loss per share, basic and diluted		0.00	-	0.00

	Notes	Nine Months Ended September 30, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>				
Professional fees and consulting fees		\$ 335,954	\$ -	\$ 335,954
General and administrative		174,318	-	174,318
Share based payments		132,000	(58,884)	73,116
Foreign exchange (gain) loss		3,370	-	3,370
<b>Loss from operations</b>		<b>(645,642)</b>	<b>(58,884)</b>	<b>(586,758)</b>
<b>Loss for the period</b>		<b>(645,642)</b>	<b>-</b>	<b>(586,758)</b>
<b>Comprehensive loss for the period</b>		<b>\$ (645,642)</b>	<b>\$ -</b>	<b>\$ (586,758)</b>
Loss per share, basic and diluted		(0.01)	-	(0.01)

## Delrand Resources Limited

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011

(Expressed in Canadian dollars - unaudited)

The Canadian GAAP consolidated statements of operations and other comprehensive loss for the year ended December 31, 2010 have been reconciled to IFRS as follows:

	Notes	Year Ended December 31, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>				
Consulting, management and professional fees		\$ 447,319	\$ -	\$ 447,319
General and administrative		209,778	-	209,778
Share based payments		88,000	(58,884)	29,116
Foreign exchange (loss) gain unrealized		3,356	-	3,356
Impairment of mineral properties and deferred exploration expenditures		740,975	-	740,975
Bad debt expense		105,009	-	105,009
<b>Loss from operations</b>		<b>(1,594,437)</b>	<b>(58,884)</b>	<b>(1,535,553)</b>
Income tax recovery		28,515	-	28,515
<b>Loss for the period</b>		<b>(1,565,922)</b>	<b>-</b>	<b>(1,507,038)</b>
<b>Comprehensive loss for the period</b>		<b>\$ (1,565,922)</b>	<b>\$ -</b>	<b>\$ (1,507,038)</b>
Loss per share, basic and diluted		(0.02)	-	(0.02)

**Delrand Resources Limited****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****As at and for the three and nine months ended September 30, 2011****(Expressed in Canadian dollars - unaudited)**

The Canadian GAAP reconciliation to IFRS of the consolidated statements of cash flows for the three and nine month periods September 30, 2010 is as follows:

	Notes	Three months ended September 30, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Cash flows from operating activities</b>				
Net loss for the period		\$ (260,133)		\$ (260,133)
Adjustments to reconcile loss to net cash used in operating activities				
Share based payments		-		-
Changes in non-cash working capital				
Prepaid expenses and other assets		(3,802)	-	(3,802)
Accounts payable and accrued liabilities		25,648	-	25,648
<b>Net cash flows from operating activities</b>		<b>(238,287)</b>	<b>-</b>	<b>(238,287)</b>
<b>Cash flows from investing activities</b>				
Deferred Exploration expenditures		225,425	-	225,425
<b>Net cash used in investing activities</b>		<b>225,425</b>	<b>-</b>	<b>225,425</b>
<b>Cash flows from financing activities</b>				
Due to related parties		95,695	-	95,695
<b>Net cash (used in) / from financing activities</b>		<b>95,695</b>	<b>-</b>	<b>95,695</b>
<b>Net increase (decrease) in cash during the period</b>		<b>82,833</b>	<b>-</b>	<b>82,833</b>
<b>Cash, beginning of the period</b>		<b>7,197</b>	<b>-</b>	<b>7,197</b>
<b>Cash, end of the period</b>		<b>\$ 90,030</b>	<b>\$ -</b>	<b>\$ 90,030</b>

**Delrand Resources Limited****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****As at and for the three and nine months ended September 30, 2011****(Expressed in Canadian dollars - unaudited)**

		Nine months ended September 30, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Cash flows from operating activities</b>				
Net loss for the period		\$ (645,642)	\$ 58,884	\$ (586,758)
Adjustments to reconcile loss to net cash used in operating activities				
Share based payments		132,000	(58,884)	73,116
		(513,642)	-	(513,642)
Changes in non-cash working capital				-
Prepaid expenses and other assets		32,804	-	32,804
Accounts payable and accrued liabilities		(120,425)	-	(120,425)
<b>Net cash flows from operating activities</b>		<b>(601,263)</b>	<b>-</b>	<b>(601,263)</b>
<b>Cash flows from investing activities</b>				
Deferred Exploration expenditures		190,476	-	190,476
<b>Net cash used in investing activities</b>		<b>190,476</b>	<b>-</b>	<b>190,476</b>
<b>Cash flows from financing activities</b>				
Due to related parties		(163,678)	-	(163,678)
<b>Net cash (used in) / from financing activities</b>		<b>(163,678)</b>	<b>-</b>	<b>(163,678)</b>
<b>Net increase (decrease) in cash during the period</b>		<b>(574,465)</b>	<b>-</b>	<b>(574,465)</b>
Cash, beginning of the period		664,495	-	664,495
<b>Cash, end of the period</b>		<b>\$ 90,030</b>	<b>\$ -</b>	<b>\$ 90,030</b>

## Delrand Resources Limited

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2011

(Expressed in Canadian dollars - unaudited)

The Canadian GAAP reconciliation to IFRS of the consolidated statement of cash flows for the year ended December 31, 2010 is as follows:

	Notes	Year ended December 31, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Cash flows from operating activities</b>				
Net loss for the period		\$ (1,565,922)	\$ 58,884	\$ (1,507,038)
Adjustments to reconcile loss to net cash used in operating activities				
Impairment of properties		740,975	-	740,975
Share based payments		88,000	(58,884)	29,116
Accrued interest expense		493	-	493
Bad debt expense		105,009	-	105,009
Provision for taxes		(28,515)	-	(28,515)
Changes in non-cash working capital				-
Prepaid expenses and other current assets		36,453	-	36,453
Accounts payables and accrued liabilities		(192,996)	-	(192,996)
Taxes payable		(6,598)	-	(6,598)
<b>Net cash flows from operating activities</b>		<b>(823,101)</b>	<b>-</b>	<b>(823,101)</b>
<b>Cash flows from investing activities</b>				
Proceeds from disposal of capital asset		64,794	-	64,794
Expenditures on exploration and evaluation		(338,757)	-	(338,757)
Funds received from Rio Tinto		431,355	-	431,355
<b>Net cash used in investing activities</b>		<b>157,392</b>	<b>-</b>	<b>157,392</b>
<b>Cash flows from financing activities</b>				
Due to related parties		(271,855)	-	(271,855)
Notes payable		400,000	-	400,000
<b>Net cash (used in) / from financing activities</b>		<b>128,145</b>	<b>-</b>	<b>128,145</b>
<b>Effect of foreign exchange on cash held in foreign currency</b>				
			-	-
<b>Net increase (decrease) in cash during the period</b>		<b>(537,564)</b>	<b>-</b>	<b>(537,564)</b>
<b>Cash, beginning of the period</b>		<b>664,495</b>	<b>-</b>	<b>664,495</b>
<b>Cash, end of the period</b>		<b>\$ 126,931</b>	<b>\$ -</b>	<b>\$ 126,931</b>

**Delrand Resources Limited****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****As at and for the three and nine months ended September 30, 2011****(Expressed in Canadian dollars - unaudited)**

The Canadian GAAP reconciliation to IFRS of the consolidated statement of changes in equity as at January 1, 2010 is as follows:

	Notes	January 1, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
Common Shares Amount		\$ 115,457,876	\$ -	\$115,457,876
Contributed Surplus		7,700,518	73,715	7,774,233
Deficit		(117,842,181)	(56,467)	(117,898,648)
Total Shareholder's Equity		\$ 5,316,213	\$ 17,248	\$ 5,333,461

The Canadian GAAP reconciliation to IFRS of the consolidated statement of changes in equity for the nine months ended September 30, 2010 is as follows:

	Notes	Nine months ended September 30, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
Common Shares Amount		\$ 115,457,876.00	\$ -	\$115,457,876
Contributed Surplus		7,872,644	(3,156)	7,869,488
Deficit		(118,487,823)	2,417	(118,485,406)
Total Shareholder's Equity		\$ 4,842,697	\$ (739)	\$ 4,841,958

The Canadian GAAP reconciliation to IFRS of the consolidated statement of changes in equity for the year ended December 31, 2010 is as follows:

	Notes	Year ended December 31, 2010		
		Canadian GAAP	Effect of Transition to IFRS	IFRS
Common Shares Amount		\$ 115,457,876.00	\$ -	\$115,457,876
Contributed Surplus		7,815,398	(3,156)	7,812,242
Deficit		(119,408,103)	2,417	(119,405,686)
Total Shareholder's Equity		\$ 3,865,171	\$ (739)	\$ 3,864,432

**DELRAND RESOURCES LIMITED**  
**(formerly 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, 2011**

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 Delrand Resources Limited (the "**Company**" or "**Delrand**") based upon International Financial Reporting Standards ("**IFRS**"). This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements as at and for the three and nine month periods ended September 30, 2011, as well as the notes thereto, the audited consolidated financial statements as at and for the financial year of the Company ended December 31, 2010 ("**fiscal 2010**") and the notes thereto and the annual MD&A for fiscal 2010. All amounts are expressed in Canadian dollars unless otherwise stated.

This MD&A is dated November 14, 2011. Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**FORWARD-LOOKING STATEMENTS**

The following MD&A contains forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements relating to exploration results, potential mineralization and future plans and objectives of the Company) are forward-looking statements. These forward-looking statements reflect the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, uncertainties relating to the availability and costs of financing needed in the future, the possibility that future exploration results will not be consistent with the Company's expectations, changes in equity markets, changes in diamond markets, foreign currency fluctuations, political developments in the Democratic Republic of the Congo (the "**DRC**"), changes to regulations affecting the Company's activities, delays in obtaining or failure to obtain required project approvals, the uncertainties involved in interpreting geological data and the other risks involved in the mineral 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 known diamond producing areas in the DRC. In June 2011, the Company effected a change in the name of the Company from BRC DiamondCore Ltd. to Delrand Resources Limited and a consolidation (the "**Consolidation**") of the outstanding common shares of the Company on a two to one basis. The names of the Company's subsidiaries in the DRC and South Africa are currently unchanged.

For the three and nine month periods ended September 30, 2011, the Company reported a net loss of \$69,212 and \$416,431 respectively (compared to a net loss of \$260,133 and \$586,758 for the respective three and nine month periods ended September 30, 2010). The net asset value of the Company was \$4,273,937 as at September 30, 2011 (December 31, 2010: \$3,864,432)

The Company's accumulated deficit as at September 30, 2011 was \$119,822,117 (December 31, 2010: \$119,405,686). The Company had a working capital deficit of \$364,232 as at September 30, 2011 (December 31, 2010: \$1,198,181) and had a net increase in cash of \$94,643 during the nine months ended September 30, 2011.

While the Company's financial statements for the first, second and third quarters of 2011 have been prepared on the basis of IFRS 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 market conditions 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. Management has been exploring all available options to secure additional funding, including equity financing and strategic partnerships. In addition, the recoverability of amounts shown for exploration and evaluation 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, or, alternatively, upon the Company's ability to recover its spent costs through a disposition of its interests, all of which are uncertain.

During the first nine months of 2011, the Company completed the following three transactions which have impacted the Company's liquidity position:

1. In April 2011, the Company sold the containerized bulk sampling plant that had been constructed for the alluvial deposits on the Kwango River in southern DRC. The Kwango project had previously been abandoned by the Company and the related licences relinquished when it was concluded that the project would not be economically viable. The gross proceeds from the sale of the plant were US\$575,000.

2. On May 11, 2011, the Company closed a non-brokered private placement of 7,500,000 units of the Company at a price of \$0.08 per unit for proceeds to the Company of \$600,000. Each such unit was comprised of one common share of the Company and one warrant of the Company entitling the holder to purchase one common share of the Company at a price of \$0.11 for a period of three years.

3. On May 27, 2011, the Company closed a non-brokered private placement of 2,500,000 units of the Company at a price of \$0.10 per unit for proceeds to the Company of \$250,000. Each such unit was comprised of one common share of the Company and one warrant of the Company entitling the holder to purchase one common share of the Company at a price of \$0.11 for a period of three years. The purchasers of the units under this financing were directors and officers of the Company.

The information in items 2 and 3 above has not been adjusted to reflect the Consolidation.

## **DRC Projects**

### DRC North Project (46 exploration permits)

The previously reported Company results of the reconnaissance stream samples (see the Company's press release dated February 2, 2011), collected over the 44 Coexco and two Company exploration permit areas, had revealed the presence of kimberlitic minerals and micro diamonds. The mineral chemistry of the kimberlitic minerals analysed by the Rio Tinto facilities in Perth, Australia was encouraging, so a follow-up program was formulated by the Company. The follow-up program over the positive areas of the Coexco and Delrand permits was initiated by the Company in the first quarter of 2011 and was completed during the second quarter of 2011. This program was funded by Rio Tinto pursuant to a new joint venture arrangement with Rio Tinto (see the Company's press release dated February 2, 2011).

The results from the initial reconnaissance stream sampling program referred to above comprised five ilmenites, 27 chrome-spinels (including nine diamond inclusion types), one eclogitic garnet, all of which proved to be kimberlitic, and 15 micro-diamonds. On the basis of these results the Company selected 16 Coexco and two Company permits, all in the Bafwasende region of the Province Orientale in the northern DRC, as the main target area for the follow-up program referred to above.

The target area comprises Neoproterozoic Lindian Group sediments (shale, sandstone and conglomerate) overlying what has been referred to as the Archaean Mbomou Craton.

As of the end of the third quarter of 2011, only some of the visual results from the follow up program have been received. The remainder is scheduled to be completed by the last quarter of 2011. So far a number of micro-diamonds and kimberlitic minerals have been recovered, roughly in the same areas that had been highlighted by the reconnaissance program. Many of the garnets show intensive etching due to their residence in the lateritic environment. Several of the samples that have been observed contain ilmenites with leucoxene-pervoskite mantles, which is an important indicator of their proximity to a primary source, and is therefore potentially significant

The reddish coloration of most concentrate is a reflection of the high proportion of laterite in the washed material. Field observations confirm that most of the area is covered by thick (more than 5 meters) and mature laterite, masking evidence of any primary sources that may be present and depressing the occurrences of kimberlitic satellite minerals due to chemically weathering of in particular the garnets and chrome-diopsides. Furthermore, intense artisanal diamond digging continues in the follow-up area.

The two wholly-owned Delrand exploration permits, PR 1774 and 1775, also referred to as the Bomilli project and covering ground directly to the north of the Coexco ground, were covered during the third quarter of 2011 with follow-up stream samples. In total, 97 stream

samples were collected which completed the follow-up program over an area of 400 km<sup>2</sup> in extent. The number of samples taken equates to one stream sample per 4.1km<sup>2</sup> compared to one sample per 26km<sup>2</sup> during the reconnaissance phase. Each stream sample was comprised of a minimum of 20 litres of minus 0.71 mm diameter material, compared to 30 litres of minus 0.71 mm material in the original reconnaissance material. The material was classified in the field using minus 0.71 mm and plus 0.43 mm screens. This screened minus 0.71 mm and plus 0.43 mm size-fraction was hand-gravitated on site. During the second quarter of 2011, all samples were concentrated in Kinshasa, DRC using a mechanical Armstrong Jig. The concentrates of these samples were dispatched to the Rio Tinto heavy mineral laboratory in Perth, Australia. No results are available at present.

#### Tshikapa Project (9 exploration permits)

The stream samples that were collected over the two Caspian permit areas (PR 976 and 977) in the Tshikapa area by Delrand, and which was funded by Rio Tinto, are still awaiting treatment in the Rio Tinto Laboratory in Perth, Australia. It is hoped to have the visual results reported on by the end of this year or early 2012. Delrand collected these follow-up stream samples during the second quarter of this year. The permits now cover 164km<sup>2</sup> cumulatively. Both permits have returned abundant kimberlitic minerals during the reconnaissance stage with surface textures that indicate the presence of proximal primary sources. The area has previously been flown with airborne magnetic surveys, but the busy magnetic background has complicated the picking of kimberlite-like targets. Hence a follow-up stream sampling program over the two properties, held pursuant to an agreement with Caspian Oil and Gas Ltd, was conducted by the Company and funded by Rio Tinto.

The follow-up samples comprised of 20 litres of post-screened material in the minus 0.7mm to plus 0.43 mm fractions. The material was screened and hand gravitated in the field and the field concentrates were further concentrated by the Company's Armstrong Jig in Kinshasa, DRC. In total, 40 samples were collected over the area on a density of one sample per 5 km<sup>2</sup>. The concentrates from the Armstrong jig have been sent to Rio Tinto's heavy mineral laboratory in Perth, Australia for sorting and mineral chemistry.

#### Security of Tenure

The Company's diamond exploration activities in the DRC are focused on two areas: one in the northern DRC around Bafwasende and one in the southern part of the country south of Tshikapa. Exploration permits have been secured in both areas and are in good standing. Two exploration permit applications are still at CAMI for consideration. 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), the Company (3), Caspian Oil & Gas Ltd. (2) and Coexco (44).

Status of Diamond Exploration Permits of the Company and Partners in the DRC

Company (Project)	Permit Numbers	No. of Permits	Km <sup>2</sup>
Delrand (2 DRC North, 1 Tshikapa)	1774, 1775, 9083	3	961
Acacia (Tshikapa)	1175,1176,1177,1180, 1188, 1187	6	1,053
Caspian Oil and Gas (Tshikapa)	976, 977	2	164
Coexco (DRC North)	6013-6016, 6018-6036, 6887-6906, 6909	44	7,313
Total		55	9,491

Iron Ore Exploration

In May 2011, the Company announced the discovery of high grade haematite (a form of iron ore) in its exploration areas within Province Orientale, DRC, through its joint venture with Rio Tinto Minerals Development Limited ("**Rio Tinto**"). Additional iron ore results were announced by the Company in November 2011. The drilling results for 1,117 metres of diamond drill holes, which are detailed below, revealed average grades from the mineralized intercepts ranging from 62.5% to 68.5% iron. The iron ore exploration is being funded by Rio Tinto.

Initial geological research and exploration had indicated that the exploration permit areas, which hitherto had been largely unexplored using modern exploration methods, were highly prospective for the discovery of iron ore deposits. This assessment is supported by these initial drill results. Mapping and first pass drilling has been completed on the Zatusa 01 and 02 target areas with 11 diamond drill holes, one of which had to be abandoned, totaling 1,117 meters. Seven of these holes intercepted high grade haematite mineralization. The mineralized package was not present in the remaining holes despite their central location.

The target areas had been selected after a regional airborne magnetic survey had identified geophysical anomalies which subsequent ground follow up indicated to be associated with outcropping haematite mineralization. Mineralized intervals, where intercepted by a drill hole, range in thickness from 37 meters to 121 meters with both friable and massive textures being observed.

Analytical results have been received for all the seven holes with values of 62.5%-68.5% for Fe; 0.56% to 4.78% for Al<sub>2</sub>O<sub>3</sub>; 0.48% to 6.36% for SiO<sub>2</sub> and 0.040% to 0.148% for P, with the elevated high phosphorous values appearing to be associated with recent weathering. Despite limited thicknesses in some of the holes, the results give encouragement that high-grade haematite is present in the area.

Rio Tinto, as the operator, intends to complete the helicopter supported reconnaissance over the remainder of the Bomokandi permit area.

**QUALIFIED PERSON AND TECHNICAL REPORT**

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

Additional information with respect to the Company's Tshikapa project is contained in the technical report prepared by Dr. Michiel C. J. de Wit and Fabrice Matheys, dated March 31, 2009 and titled "National Instrument 43-101 Technical Report on the Tshikapa Project of BRC DiamondCore Ltd. in the Democratic Republic of the Congo". A copy of this report can be obtained from SEDAR at [www.sedar.com](http://www.sedar.com).

## RESULTS OF OPERATIONS

For the three and nine month periods ended September 30, 2011, the Company reported a net loss of \$69,212 and \$416,431 respectively (or \$0.00 and \$0.01 per share for the three and nine month periods respectively), compared to a net loss of \$260,133 and \$586,758 (or \$0.00 and \$0.01 per share) incurred during the respective three and nine month periods ended September 30, 2010.

The decrease in losses was a result of decreased consulting and professional fees (\$102,169), decreased share-based payment expense (\$73,116) as well as a foreign exchange gain (\$10,991).

## 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 2011. The Company's reporting and measurement currency is the Canadian dollar. The financial information for the first, second and third quarters of 2010 and 2011 are reported in accordance with IFRS. The remaining quarters are reported in accordance with Canadian generally accepted accounting principles ("**GAAP**").

	<b>2011</b> <b>3<sup>rd</sup> quarter</b>	<b>2011</b> <b>2<sup>nd</sup> quarter</b>	<b>2011</b> <b>1<sup>st</sup> quarter</b>	<b>2010</b> <b>4<sup>th</sup> quarter</b>
Net loss (\$'000)	\$69	\$169	\$178	\$920
Net loss per share (basic and diluted)	0.00	0.00	0.00	\$0.01
	<b>2010</b> <b>3<sup>rd</sup> quarter</b>	<b>2010</b> <b>2<sup>nd</sup> quarter</b>	<b>2010</b> <b>1<sup>st</sup> quarter</b>	<b>2009</b> <b>4<sup>th</sup> quarter</b>
Net loss (\$'000)	\$260	\$99	\$228	\$528
Net loss per share (basic and diluted)	\$0.00	\$0.00	\$0.00	\$0.01

During the third quarter of 2011, the Company's net loss decreased to \$69,212 compared to a net loss in the second quarter of 2011 of \$169,444. The lower loss in the third quarter of 2011 was due to decreased consulting and professional fees as well as a foreign exchange gain of \$10,478 in the third quarter (as compared to the \$2,756 gain that occurred in the second quarter).

During the second quarter of 2011, the Company's net loss decreased to \$169,444 compared to a net loss in the first quarter of \$177,775. The lower loss in the second quarter of 2011 was due to decreased consulting and professional fees as well as a foreign

exchange loss of \$2,243 in the first quarter (as compared to the \$2,756 gain that occurred in the second quarter).

During the first quarter of 2011, the Company's net loss decreased to \$177,775 compared to a net loss in the fourth quarter of 2010 of \$920,280. The greater loss in the fourth quarter of 2010 was due to an impairment loss of \$740,975 related to the discontinuation of the Lubao and Candore projects as well as a write off of a receivable for rental of the Kwango plant in the amount of \$105,009.

During the fourth quarter of 2010, the Company's net loss increased to \$920,280 compared to a net loss of \$260,133 in the third quarter of 2010. This increase was primarily due to an impairment loss related to the discontinuation of the Lubao and Candore projects of \$740,975.

During the third quarter of 2010, the Company's net loss increased to \$260,133 compared to a net loss of \$98,794 in the second quarter of 2010. This increase was primarily due to an increase in professional fees which related to the Diamond Core liquidation proceedings in South Africa. General and administrative costs also increased in the third quarter of 2010 as a result of fees relating to the Company's secondary listing on the JSE Limited in South Africa.

During the second quarter of 2010, the Company's net loss decreased to \$98,794 compared to a net loss of \$227,831 in the first quarter of 2010. Net loss recorded during the first quarter of 2010 was significantly impacted by the recognition of stock based compensation expense of \$73,116 compared to \$nil recorded during the second quarter of 2010. General and administrative costs were also lower in the second quarter of 2010 as compared to the first quarter of 2010.

During the first quarter of 2010, the Company's net loss decreased to \$227,831 compared to \$528,193 in the fourth quarter of 2009, due mainly to lower professional fees and general and administrative costs.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2011, the Company had cash and cash equivalents of \$221,574 and a working capital deficit of \$364,232, compared to cash and cash equivalents of \$126,931 and a working capital deficit of \$1,198,181 as at December 31, 2010.

The Company has no operating revenues and is wholly reliant upon external financing to fund its activities. There is no assurance that such financing will be available on acceptable terms, if at all.

Rio Tinto is currently funding the exploration at the Company's diamond projects in the DRC and the exploration at the DRC iron ore project.

In general, market conditions have limited the availability of funds. Given the Company's financial position and available resources, the Company currently expects a need to access equity markets for financing over the next twelve months. In light of current conditions, the Company has continued a series of measures to bring its spending in line with the projected cash flows from its operations in order to preserve its financial position and maintain its liquidity position. Management believes that based on its current financial position and liquidity profile, the Company will be able to satisfy its current and long-term obligations. The unaudited interim condensed consolidated financial statements of the

Company as at and for the three and nine months ended September 30, 2011 have been prepared in accordance with IFRS applicable to a going concern.

Contractual obligations (not on the statement of financial position) entered into by the Company as at September 30, 2011 and as at December 31, 2010 were nil.

The Company has an option agreement to secure an equity interest in prospective ground held in six exploration permits in the DRC with ACACIA sprl, which has advised the Company of its wish to modify the option agreement. The Company continues its discussions with ACACIA sprl and is optimistic of reaching an agreement that is satisfactory to both parties.

The Company is in a dispute with two of its previous directors and officers. One of these individuals had applied in 2008 for a summary judgment against the Company in the Witwatersrand Local Division of the High Court of South Africa in respect of a dispute relating to a settlement agreement pertaining to his departure. The application for summary judgment was dismissed and the Company was granted leave to defend the claim. This individual has not taken further steps to progress that matter. However, in October 2010, almost two years after the original claim, the same former director and officer instituted fresh proceedings against the Company. He has repeated the claim made previously, but this time in a summons lodged before the North Gauteng High Court in South Africa. This former director and officer is claiming that he is owed payment of 1.2 million South African rand plus interest. The other individual has referred two disputes to the Commission for Conciliation Mediation and Arbitration in Johannesburg, South Africa and an action to the High Court in that same jurisdiction. He elected to withdraw an application for summary judgment. The Company is defending these actions.

## EXPLORATION AND EVALUATION EXPENDITURES

The following table provides a breakdown of the Company's exploration and evaluation expenditures in the DRC for the nine month period ended September 30, 2011:

	Tshikapa	Nothern DRC	Total
<b>Balance 12/31/2010</b>	\$ 2,590,956	\$ 2,484,085	\$ 5,075,041
<b><u>Opening balance adjustments</u></b>			
IFRS adjustment - Jan 1, 2010	8,624	8,624	17,248
IFRS adjustment - Dec 31, 2010	(8,993)	(8,994)	(17,987)
Funds Recieved from Rio Tinto 2010	431,355	(431,355)	-
<b>Net Adjustments</b>	430,986	(431,725)	(739)
<b><u>Operating expenses</u></b>			
Funds Recieved from Rio Tinto	-	(341,110)	(341,110)
Admin and office support	23,496	235,921	259,417
Amortization	1,986	1,987	3,973
Field camps expenses	5,987	35,866	41,853
Remote Sensing	-	-	-
Drilling	-	-	-
Geology	-	440	440
Professional fees	1,955	9,183	11,138
Business promotion	-	-	-
Travel & Helicopter	5,535	37,387	42,922
Stock based comp	-	-	-
Permits and surface taxes	62,196	2,621	64,817
Foreign exchange	23,430	23,430	46,860
Gain on sale of asset	-	(550,783)	(550,783)
<b>Total Operating Expenses</b>	124,585	(545,058)	(420,473)
<b>Balance September 30, 2011</b>	<b>3,146,527</b>	<b>1,507,302</b>	<b>4,653,829</b>

## OUTSTANDING SHARE DATA

The authorized share capital of the Company consists of an unlimited number of common shares. As at November 14, 2011, the Company had outstanding 49,704,341 common shares, stock options to purchase an aggregate of 1,110,752 common shares of the Company and warrants to purchase an aggregate of 15,000,000 common shares of the Company.

## RELATED PARTY TRANSACTIONS

### a) Key Management Remuneration

The Company's related parties include key management. Key management includes executive directors and non-executive directors. The remuneration of the key management of the Company as defined above, during the three and nine months ended September 30, 2011 and 2010 was as follows:

Three month period ending		Nine month period ending	
September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
\$ 153,675	\$ 114,240	\$ 200,305	\$ 205,933
\$ 153,675	\$ 114,240	\$ 200,305	\$ 205,933

### b) Other Related Parties

During the three and nine month periods ended September 30, 2011, legal expenses of \$8,610 and \$29,739 (three and nine month periods ended September 30, 2010: \$14,808 and \$95,176), incurred in connection with general corporate matters, were paid to a law firm of which a director and officer of the Company was a partner until February 2011. As at September 30, 2011, \$54,380 (December 31, 2010 - \$90,778) owing to this legal firm was included in accounts payable.

As at September 30, 2011, an amount of \$83,334 was owed to two directors of the Company representing consulting fees (December 31, 2010: \$102,311). During the three and nine month periods ended September 30, 2011, consulting fees of \$50,000 and \$150,000, respectively, were incurred to the two directors (three and nine month periods ended September 30, 2010: \$50,000 and \$150,000 respectively to the two directors).

As at September 30, 2011, an amount of \$11,660 (December 31, 2010: \$3,719) was owed to Banro Corporation ("Banro"). During the three and nine months ended September 30, 2011, common expenses in the DRC were incurred in the amounts of \$nil and \$7,941. Banro owns 17,716,994 common shares of the Company, representing a 35.65% interest in the Company. During the year ended December 31, 2010, a drill rig was sold to Banro by the Company for gross proceeds of \$154,964.

On May 27, 2011 the Company closed a non-brokered private placement of 2,500,000 units of the Company at a price of \$0.10 per unit for proceeds of \$250,000. The purchasers of the units under this private placement were directors and officers of the Company (see "Company Overview" above).

All amounts due to related parties are unsecured, non-interest bearing and due on demand. All transactions are in the normal course of operations and are measured at the exchange value.

## **NEW PRONOUNCEMENTS ADOPTED**

September 30, 2011 is the Company's third reporting period under IFRS. Accounting standards effective for periods beginning on January 1, 2011 have been adopted as part of the transition to IFRS.

### Transition to IFRS

IFRS 1, First Time Adoption of IFRS, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statement in accordance with Canadian GAAP.

In preparing the Company's opening IFRS consolidated statements of financial position, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with previous Canadian GAAP. The IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS are as follows:

i) Share-based payment transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and that vest before the transition date. As a result of applying this exemption, the Company will apply the provision of IFRS 2 to all outstanding equity instruments that are unvested prior to the date of transition to IFRS.

ii) Deemed Cost of Exploration and Evaluation Assets

The Company has elected not to retrospectively apply IAS 36 to the previously recorded impairments. Per IFRS 1, the Company has taken an election to deem all exploration and evaluation assets at cost.

iii) Estimates

The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Company has not used hindsight to create or revise estimates.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption has not changed the Company's actual cash flows, it has resulted in changes to the Company's consolidated statement of financial position and statement of comprehensive loss. The statement of comprehensive loss has been changed to comply with IAS 1 Presentation of Financial Statements. The Canadian GAAP consolidated balance sheets as at January 1, 2010 and December 31, 2010, the consolidated statements of operations and comprehensive loss for the three and nine month periods ended September 30, 2010 as well as the consolidated statement of cash flows for the three and nine month

periods September 30, 2010 have been reconciled to IFRS, with a summary of the most significant changes in policy as follows:

### *Share-Based Payments*

Under IFRS 2 Share-Based Payments, each tranche of an award with different graded vesting is accounted for as a separate award and the resulting fair value is amortized over the vesting period of each tranche. Under Canadian GAAP, the Company was accounting for these as a single award. In addition, under IFRS 2, the Company is required to estimate the number of forfeitures likely to occur on grant date and reflect this in the share-based payment expense revising for actual experiences in subsequent periods. Under Canadian GAAP, forfeitures were recognized as they occurred

### **FUTURE ACCOUNTING STANDARDS**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9 Financial instruments ("**IFRS 9**") was issued by the IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("**IAS 39**"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

A revised version of IAS 24 Related party disclosures ("**IAS 24**") was issued by the IASB on November 4, 2009. IAS 24 requires entities to disclose in their consolidated financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this issuance did not have a significant impact on the Company's consolidated financial statements.

IFRS 10 Consolidated Financial Statements ("**IFRS 10**") establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidated – Special Purpose Entities" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 11 Joint Arrangements ("**IFRS 11**") establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes the current IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" and is effective for annual periods beginning on or after January 1, 2013. Earlier

application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities ("**IFRS 12**") applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 13 Fair Value Measurements ("**IFRS 13**") defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 7 Financial instruments: disclosures ("**IFRS 7**") The Accounting Standards Board ("**AcSB**") approved the incorporation of the IASB's amendments to IFRS 7 Financial Instruments: Disclosures and the related amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards into Part I of the Handbook. These amendments were made to Part I in January 2011 and are effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. The amendments relate to required disclosures for transfers of financial assets to help users of the financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements.

An amendment to IAS 1, Presentation of financial statements was issued by the IASB in June 2011. The amendment requires separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future, such as foreign currency differences on disposal of a foreign operation, if certain conditions are met from those that would never be reclassified to profit or loss. The effective date is July 1, 2012 and earlier adoption is permitted. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

IAS 27, Separate financial statements ("**IAS 27**") was re-issued by the IASB in May 2011 to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The consolidation guidance will now be included in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of the amendments on its consolidated financial statements

IAS 28, Investments in associates and joint ventures ("**IAS 28**") was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company's interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements included the following:

### Provisions and contingencies

The amount recognized as provision, including legal, contractual and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

### Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive income (loss) during the period the new information becomes available.

### Impairment

Assets, including property, plant and equipment and exploration and evaluation assets, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the fair value often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, rehabilitation and restoration costs, future capital requirements and future operating performance. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed regularly by management.

### Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. Under IFRS, the Company is required to estimate the number of forfeitures likely to occur on grant date and reflect this in the share-based payment expense revising for actual experiences in subsequent periods.

## **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. Diamond prices were reduced significantly as a result of the economic downturn and the recovery could be accompanied by volatility.

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 favor or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Changes, if any, in mining or investment policies or shifts in political attitude in the DRC may adversely affect the Company's operations. 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. 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.

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

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 RISK MANAGEMENT OBJECTIVES AND POLICIES**

### **a) Fair value of financial assets and liabilities**

The consolidated statements of financial position carrying amounts for cash and cash equivalents, prepaid expenses and other assets, accounts payable and accrued liabilities and notes payable approximate their 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.

The following presents the fair value and carrying value of the Company's financial instruments:

	Classification	Measurement	30-Sep-11	31-Dec-10
<b>Financial assets</b>				
	Held-for-			
Cash and cash equivalents	Trading	Fair value	\$ 221,574	\$126,931
Prepaid expenses and other assets	Loans and receivables	Amortized cost	34,333	21,713
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	\$ 525,145	\$834,176
Notes payable	Other liabilities	Amortized cost	-	400,493
Taxes payable	Other liabilities	Amortized cost	-	6,127
Due to related parties	Other liabilities	Amortized cost	94,994	106,029

#### Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and 2 during the reporting period. The fair values of financial assets and liabilities carried at amortized cost are approximated by their carrying values. Cash is ranked Level 1 as the market value is readily observable. The carrying value of cash approximates fair value as maturities are less than three months. Notes payable is ranked Level 2 as it is based on similar loans in the market.

#### b) Risk Management Policies

The Company is sensitive to changes in commodity prices and foreign-exchange. 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.

c) Foreign Currency Risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar or other foreign currencies will affect the Company's operations and financial results. Different portions of the Company's transactions are denominated in United States dollars, Congolese francs and South African rand. The Company is also exposed to the impact of currency fluctuations on its monetary assets and liabilities. The Company's functional currency is the Canadian dollar. The majority of major expenditures are transacted in US dollars. The Company maintains the majority of its cash in Canadian dollars but it does hold balances in US dollars. Significant foreign exchange gains or losses are reflected as a separate component of the consolidated statement of comprehensive loss. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

d) 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 in Canada, the DRC and South Africa 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.

e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company attempts to ensure that there is sufficient cash to meet its liabilities when they are due and manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases. The Company's liquidity requirements are met through a variety of sources, including cash and cash equivalents, existing credit facilities and equity capital markets. In light of market conditions, the Company 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 financial position and maintain its liquidity position.

f) Mineral Property Risk

The Company's operations in the DRC are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on the Company's activities or may result in impairment in or loss of part or all of the Company's assets.

g) Market Risk

Market risk is the potential for financial loss from adverse changes in underlying market factors, including foreign-exchange rates, commodity prices, interest rates and stock based compensation costs. 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) Interest rate risk

Interest rate risk is the potential impact on any Company earnings due to changes in bank lending rates and short term deposit rates. The Company is not exposed to significant interest rate risk other than cash flow interest rate risk on its cash. The Company does not use derivative instruments to reduce its exposure to interest rate risk. A fluctuation of interest rates of 1% would not affect significantly the fair value of cash.

#### i) 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 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 mineral properties. The Company relies on title opinions by legal counsel who base such opinions on the laws of countries in which the Company operates.

#### j) Country risk

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

The Company's operations in the DRC may be affected 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 factors such as DRC government regulations with respect to foreign 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.

#### k) Capital Management

The Company manages its cash, common shares, warrants and stock options as capital. The Company's main objectives when managing its capital are:

- to maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of 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; 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 significant changes to the Company's approach to capital management during the nine month period ended September 30, 2011.

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

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Cash and cash equivalents	\$ 221,574	\$ 126,931
Share capital	\$ 116,283,812	\$ 115,457,876
Deficit	\$ (119,822,117)	\$ (119,405,686)