



AFRI-CAN MARINE MINERALS CORPORATION



**MANAGEMENT'S DISCUSSION
AND
ANALYSIS**

**FOR THE YEARS ENDED
AUGUST 31, 2010 AND 2009**

AFRI-CAN MARINE MINERALS CORPORATION

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AFRI-CAN MARINE MINERALS CORPORATION

Management's Discussion and Analysis of Financial Condition and Results of Operations
For the fiscal year ended August 31, 2010

Introduction

This Management's Discussion and Analysis of financial condition and results of operations ("MD&A") of Afri-Can Marine Minerals Corporation ("Afri-Can", the "Corporation" or "AFA") should be read in conjunction with the accompanying Management's Responsibility for Financial Reporting statement, the Auditors' Report to Shareholders, the Audited Consolidated Financial Statements of Afri-Can and the notes thereto for the fiscal years ended August 31, 2010 and 2009. Unless expressly stated otherwise, all references to dollar amounts are in Canadian dollars.

The effective date of this MD&A is December 13, 2010. Additional information about Afri-Can, including all technical reports, are available on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain statements contained herein are forward-looking, and are based on the opinions and estimates of management, or on opinions and estimates provided and accepted by management. These opinions and estimates include those that relate to geological and mining factors, commodity prices and marketing parameters used by management.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ, possibly significantly. When used in this document, words such as "could", "plan", "estimate", "expect", "intend", "intent", "may", "potential", "should" and similar expressions are forward-looking statements. Although Afri-Can believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements.

The Corporation undertakes to inform shareholders and to update forward-looking statements if circumstances or management's estimates or opinions should change.

Results of Operation and Highlights

Afri-Can is a Canadian corporation, actively involved in the acquisition, exploration and development of major mineral properties in Namibia. Afri-Can's creative and scientific approach targets large marine diamond deposits in prospective territories that offer the potential to become mining projects

Exploration Highlights:

- During Fiscal 2010, the long awaited conversion by IMDH of "The Explorer" into a state-of-the-art dedicated marine sampling vessel was finally completed allowing the Corporation to begin its resource delineation sampling programme on Block J on April 24, 2010.
- With the delineation of an Inferred Diamond Resource in Feature 8 on the concession EPL 2499 (Block J) of 154,000 carats at an average grade of 0.09 carats/m², the Corporation is advancing on its stated goal to delineate a resource of about 1 million carats at a grade of about 0.10 carats/m²;
- Results of the 2010 sampling programme justify stage 4 sampling and trial mining work in EPL 2499 (Block J). Stage 4 exploration aims to continue the transformation of the indicated potential ranging between 1.2 million carats at a grade of 0.03 carats/ m² and 1.5 million carats at a grade of 0.04 carats/ m² into a minimum resource of 846,000 carats resource at a grade of about 0.10 carats/ m²;
- During fiscal 2010, Teck Namibia Limited, a wholly owned subsidiary of Teck Resources Limited completed a 5,000 metres drilling programme on the Haib copper prospect. Five of the nine drill holes from the current program (holes 5 to 9) were designed to test the extent of porphyry mineralization at depth. The other four holes (holes 1 to 4) tested newly identified targets that had not previously been drill tested.

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Results of Operation and Highlights (Cont'd)

Operations Highlights:

- During the first six months of fiscal 2010 the Corporation concluded a new agreement with IMDH concerning the terms of the sampling program;
- During fiscal 2010, the Corporation raised \$4,164,239 in cash, \$1,850,000 through private placements, \$2,142,239 through warrants exercises and \$172,000 in cash through options exercises;
- During fiscal 2010, the Corporation invested \$2,814,610 in order to complete its 1st stage resource delineation sampling programme on EPL 2499 (Block J);
- The Corporation ended fiscal 2010 with \$676,248 in working capital.
- After the end of the fiscal year:
 - On October 12, 2010 the Corporation announced its intention to acquire EPL 3403, a marine diamond concession adjacent to Namdeb's Atlantic One Mining Lease in Namibia;
 - On October 25, 2010, the Corporation announced that it had completed a 43-101 compliant technical report on the Block J sampling program;
 - On November 10, 2010, the Corporation announced that it had completed a 43-101 compliant qualification report on EPL 3403 and that it has finalized its work program to further the development of Block J.
 - On November 29, the Corporation announced Teck Namibia's Haib results.

Exploration

EPL 2499 - Block J / Woduna Concession

Exclusive Prospecting Licence (EPL) 2499, called "Block J", is located approximately 25 kilometres off the coast of the Republic of Namibia, in the south west region of Africa. The area covers about 1,000 km² and the Namibian company Woduna Mining Holdings (Pty) Ltd ("Woduna") has been granted the Exclusive Prospecting License (EPL) over the concession area.

The Corporation's 70% interest in the Block J Woduna concession is held through an agreement between the Corporation and Woduna. The agreement stipulates that the Corporation is the operator and manager of the exploration and development programs. It also stipulates that, in the event that EPL 2499 (Block J) becomes a commercial mining lease, the Corporation shall be reimbursed its full investment (exploration, development and acquisition costs) with interest before Woduna is paid its 30% share of the net profit of the project.

Between years 2000 and 2003, Afri-Can conducted 2 geophysical surveys and 2 sampling programmes that resulted in the discovery and delineation of many prospective geological Features. The sampling programmes also enabled the conversion of 4 of these Features into prospective marine diamond deposits.

In 2001, a contracted first phase exploration sampling programme was undertaken using the De Beers vessel "Douglas Bay". A total of 337 samples, each of nominal area 2.16 m², were taken in 17 geological features covering the area of outcropping basement rocks. This programme yielded 23 gem-quality diamonds, totalling 4.65 carats in weight, with the largest stone weighing 0.64 carats.

In phase 2, sampling work was carried-out in October and November 2002 in Feature 08, and 84 diamonds weighing 11.04 carats were recovered with the largest stone weighing 0.49 carats.

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Exploration (Cont'd)

EPL 2499 - Block J / Woduna Concession (Cont'd)

The development activities of the Corporation were slowed down during 2004 and 2005 due to reduced capital investments in the marine diamond industry which resulted in a scarcity of technically dedicated and suitable vessels for marine diamond exploration.

On January 11, 2006, the Corporation concluded an agreement with International Mining and Dredging Holding Ltd. ("IMDH") to complete a sampling and resource delineation program on Block J.

Subsequent to the signing of the agreement, all the previous exploration results were re-assessed and compiled into a National Instrument 43-101 compliant report dated 1st May 2006. This report recommended that an intensive marine geophysical survey and vibracoring programme on certain geological features within the lease area be carried out and followed up with a quantitative sampling programme.

Originally, the agreement with IMDH stipulated that the vessel "Mare Oceano" be hired to carry out the geophysical survey and vibracore sampling programme and that, after installation of sampling and treatment equipment, it would carry out the quantitative sampling programme.

The first part of the programme was carried out in October and November 2006 and entailed a geophysical survey of 854 line/kilometres and the extraction of 38 vibracore samples at a cost of \$1,017,659 (US\$963,343). The results were published in a series of reports and culminated in a National Instrument 43-101 report dated March 30, 2008, which included a revision of the geological models and selection of targets for quantitative sampling. The report estimated a potential diamond content ranging between 700,000 carats at a grade of 0.054 carats/ m² and 1.8 million carats at a grade of 0.14 carats/ m² on a mineralized area covering 41.7 km². The report also served as a guideline for the preparation and scheduling of the second phase of the resources delineation programme (see press release dated April 21, 2008)..

In November 2008, IMDH decided to acquire the vessel "Trenchsetter" in order to replace the Mare Oceano as the dedicated sampling vessel.

From 2008 to 2010, IMDH worked on converting the "Trenchsetter" into a state-of-the-art, dedicated marine sampling vessel, and was renamed "The Explorer" (pictures of the vessel and equipment can be seen on our web site at www.afri-can.com).

On December 10, 2009, the Corporation announced the signing of a new charter agreement with IMDH enabling the Corporation to eliminate costly payment options while maintaining the advantages of the original agreement with IMDH. On January 21, 2010, the Corporation announced that the December 10, 2009 agreement (as amended) had been approved by the TSX Venture Exchange. (Please refer to Note 5 of the Financial Statements for more details).

On April 24, 2010, the resource delineation sampling programme began.

Since statements of potential quantity are conceptual in nature and because, before the start of the sampling, there had been insufficient exploration to define a mineral resource, the goals of the sampling programme were to transform parts of the area of declared potential and parts of the undeclared areas into an inferred resource, and to declare a new potential for the remaining mineralized areas that were not covered by the sampling programme.

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Exploration (Cont'd)

EPL 2499 - Block J / Woduna Concession (Cont'd)

The program was completed on May 26, 2010 with the extraction of 314 samples, each measuring 5 m², yielding a total of 398 diamonds weighing 48.27 carats. All the diamonds were individually weighed on land and in the presence of an official of the Ministry of Mines and Energy of Namibia in June 2010. The diamonds ranged in weight from 0.01 carats to 0.64 carats.

The most important achievement of the programme was the discovery of a higher grade strip of at least 1.8 km within Feature 8. The geophysical survey data from previous programmes suggest that the high grade strip extends towards the northerly end of Block J, over a distance of approximately 20 km. Furthermore, it appears that the northern part of the strip in Feature 8 converges with Feature 6 where a potential concentration of diamonds was encountered at the end of the first part of the programme.

On October 25, 2010 The Corporation announced that it had completed a report compliant with the National Instrument 43-101 covering the 2010 sampling programme. The report includes a resources estimation completed by the independent consultants Z Star Mineral Resource Consultants (Pty) Ltd. ("Z*").

The current estimated Inferred Diamond Resource in Feature 8 is 154,000 carats in 1,720,000 m² at an average grade of 0.09 carats/m². Within the blocked-out area, there is a 78,000 carats higher grade zone, measuring about 400,000 m² with an average block grade of 0.20 carats/m². The sampling results and the revised geological models outside the area of Inferred Resource enabled the estimation for a potential for further mineralization ranging between 1.2 million carats at an average grade of 0.03 carats/ m² and 1.5 million carats at an average grade of 0.04 carats/ m² in Block J. The report is available at www.afri-can.com and on SEDAR.

Results of the 2010 sampling programme justify a stage 4 sampling and trial mining programme on Block J in order to increase the resource level from Inferred to Indicated Resources and possibly to Probable Reserves. In addition, the programme aims to transform some of the Potential into Inferred Resources.

On November 11, 2010, the Corporation announced the final design of the work programme, which comprises geophysical survey, vibracore sampling and 257 samples of 5 m² each. The sampling programme will be focused on the northerly extension of the high grade strip in Feature 8 and the definition of the diamondiferous potential of the extension, and the expansion of Inferred Resources.

Furthermore, the programme includes a trial mining of 100,000 m² within the high grade strip in Feature 8.

Details and schedule of the programme will be disclosed upon completion of the programme design for EPL 3403 and the agreement between Afri-Can and IMDH concerning the chartering of the vessels for conducting the programme.

Qualified Person

Richard W. Foster (BSc (Hons), ARCS, Pr.Sci.Nat) is the Qualified Person under National Instrument 43-101 who has reviewed the scientific and technical information in this section of the document.

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EPL 3140 - Haib Copper Project

The Haib Copper deposit is an EPL which covers 74,563 hectares and is located in the Karas region, 8 km from the Orange River in the south of Namibia. The deposit is a classic porphyry copper-molybdenum dating from the Archean age. The principal mineralised hosts at Haib are a quartz feldspar porphyry ("QFP") and a feldspar porphyry ("FP") rock.

Sulfide minerals (dominantly chalcopyrite) are disseminated within the rock mass and are found concentrated in blebs and along veinlets and fractures. Near-surface oxidation has led to the formation of malachite, azurite, chrysocolla, minor cuprite and chalcocite, generally along fracture zones but rarely to depths in excess of 30 meters.

Between May 26, 2005 and July 2008, Afri-Can and Deep South Mining (Pty) Ltd. ("Deep South") signed a series of agreements regarding the development of the Haib Copper project in Namibia.

Previous development of the Haib deposit was mainly carried out by Falconbridge of Africa (Pty) Ltd, Rio Tinto Zinc Corporation and the Namibian Copper Joint Venture Pty Ltd ("NCJV"). NCJV completed the last detailed evaluation of the Haib deposit between 1995 and 1999.

Behre Dolbear (1996), on behalf of NCJV, produced an Indicated Resource Estimate for the Haib deposit. Using the Nearest Neighbour method, Behre Dolbear estimated a resource of 630 million Tonnes @ 0.34% Cu at a cut off grade of 0.2% Cu equivalent to 4 billion lbs of Cu in situ., With a cut off grade 0.3% Cu the Haib deposit hosts a resource of 292 million Tonnes @ 0.46% Cu, equivalent to 2.7 billion lbs of Cu in situ.

The resource estimation was prepared prior to the introduction of National Instrument 43-101 (2001) and is, therefore, considered an historical resource. The resource estimation prepared by Behre Dolbear (1996) for the Haib deposit has been reviewed by Mr. Vivian Stuart-Williams, a Qualified Person under National Instrument 43-101. The resource estimation is compliant with CIM Standards and with National Instrument 43-101 and is endorsed by the Qualified Person.

On July 2, 2008, Afri-Can announced that Afri-Can and Deep South signed an option and joint venture agreement ("Agreement") with Teck Cominco Namibia Ltd. ("Teck").

Under the terms of the Agreement, Teck has the option to acquire a 70% indirect beneficial interest in the property by incurring exploration expenditures totalling US\$2 million and incurring optional non-cumulative cash payments to Deep South totalling US\$700,000 over 4 years. Once Teck has acquired its 70% interest, Deep South will have the option of either converting its 30% interest into a 2% Net Smelter Royalty ("NSR"), payable to Deep South and Afri-Can 50% each, or of funding its 30% share of ongoing exploration and development costs. In the event that Deep South does not fund its share of ongoing costs and its share in the joint-venture is diluted to less than 20%, the remaining interest will be transferred into a 12% Net Profit Interest ("NPI") payable to Deep South and Afri-Can 50% each. In the event that Teck decides to bring the property into commercial production, Teck will pay a US\$1 million production bonus, payable to Deep South and Afri-Can 50% each, within 60 days of the completion date of the mine.

The agreement was approved by the Ministry of Mines and Energy of Namibia and became effective on July 28, 2008.

According to Teck, ***"... due too several factors, including its remote location and general low grade, the Richtersveld Subprovince is relatively underexplored and has the potential to host a major ore deposit. The objective of Teck Haib Project exploration programme is the discovery of a large tonnage, open-pittable, Cordilleran-style, porphyry-hosted copper +/- molybdenum, gold and silver deposit."***

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Exploration (Cont'd)

EPL 3140 - Haib Copper Project (Cont'd)

During fiscal 2009, Teck conducted a broad programme including a detailed interpretation of the Aster data, high resolution airborne magnetic and radiometric purchased from the Geological Survey of Namibia. It was followed by alteration mapping, re-logging of the available RTZ boreholes, as well as reconnaissance level rock and stream sediment sampling.

In conjunction with the mapping and re-logging of the diamond boreholes, a field contractor was hired to carry out a regional scale stream sediment geochemical sampling program. During this time, 278 samples were collected for geochemical analysis.

During fiscal 2010, Teck conducted an IP programme that identified 3 new alteration zones in the vicinity of the main deposit and completed a nine-hole drilling programme totalling 5,000 metres.

Five of the nine drill holes from the current program (holes 5 to 9) were designed to test the extent of porphyry mineralization at depth. The other four holes (holes 1 to 4) tested newly identified targets that had not previously been drill tested. One goal of the drilling program was to identify higher grade zones that could increase the overall average grade and tonnage of the deposit. The holes drilled within the known deposit intersected mineralization through all the length of the cores.

Drilling highlights:

- 0.543% Cu over 64 metres in hole TCDH-06;
- 0.370% Cu over 234 metres in hole TCDH-06;
- 0.364% Cu over 84 metres in hole TCDH-07;
- 0.370% Cu over 60.9 metres in hole TCDH-07;
- Mineralization extends to 842.78 metres in Hole TCDH-06;
- Mineralization extends to 822.86 metres in Hole TCDH-07.

Hole TCDH-06 was drilled at -50 degrees into the deposit and intersected 842.78 metres of disseminated porphyry-style Cu-Mo mineralization grading 0.285% copper, 0.012% molybdenum, including a 64 metre interval that intersected an intrusive breccia grading 0.543% copper and 0.031% molybdenum.

Hole TCDH-07 was drilled at -65 degrees into the deposit and intersected 822.86 metres of similar porphyry-style mineralization grading 0.25% copper, 0.007% molybdenum.

Hole TCDH-05 was drilled at -80 into the central portion of the deposit and intersected 806.52 metres of disseminated porphyry mineralization grading 0.167% copper, and 0.005% molybdenum.

Four additional holes were drilled to test new targets outboard of the historic deposit. All four of these holes intersected thick zones of pervasive sericitic alteration with disseminated pyrite and minor trace chalcopyrite. Grades in these holes ranged from 0.005% Cu to 0.15% Cu. A number of additional regional targets remain to be tested.

As of the signature date of this MD&A, Teck is committed to further its exploration programme on the Haib Copper project.

Qualified Person

Mr. Vivian Stuart-Williams ("SACNASP") is the Qualified Person under National Instrument 43-101 who has reviewed the scientific and technical information in this section of the document.

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Exploration (Cont'd)

EPL 3403 - New Project

On October 12, 2010, the Corporation announced that it has entered into an agreement to acquire 100% of the Exclusive Prospecting Licence 3403 ("EPL 3403") from IMDH and BV Investments Four Hundred and Nine (Pty) Ltd. ("BVI").

EPL 3403 sits in the center of the largest and richest marine diamond field in the world. It covers about 800 km² and is adjacent to the north of the Atlantic One Mining Lease ("ML") 47 (owned by Namdeb and operated by De Beers Marine). Atlantic One is the largest marine diamond deposit in the world with a resource estimated at about 100 million carats. Atlantic One is currently producing in excess of 1,100,000 carats per year and is considered to be the most profitable marine diamond mining project with diamonds selling on average for more than US\$450 per carat. EPL 3403 is contiguous with ML 128(C), and is close to ML 43 and ML 44. Namdeb recently announced that it will spend US\$175 million on increasing the diamond resources in ML 43 by 68 million carats. EPL 3403 also faces the Diamond Area Number One concession, where De Beers has mined, on the raised beaches, over 250 million carats since 1932. EPL 3403 is situated about 75 km from the mouth of the Orange River, which is considered to be the main route that brought diamonds to the sea.

IMDH and previously Namdeb have undertaken preliminary exploration programs on EPL 3403. The work comprised geophysics, vibracoring and sampling, the majority being conducted by IMDH. 32 diamonds were recovered during previous sampling, of which 4 were larger than 1 carat in size.

The most recent reconnaissance sampling carried out by IMDH has shown that EPL 3403 hosts many similarities with the surrounding projects.

Reconnaissance sampling is designed to take samples in a very sparse fashion with the goal of proving the presence of diamonds and finding areas where concentration has occurred. The sampling has reached these goals with a high level of integrity and a high level of confidence in the potential of the project.

Some 199 samples of 5 m² were extracted, of which 14 samples recovered 23 stones ranging between 0.07 and 2.69 carats. The average diamond size was 0.39 carats, which matches the regional average. The four largest stones weighed 0.80, 1.19, 1.20 and 2.69 carats. In one area in the south, 8 positive samples had an average size of 0.80 carats per stone, which is comparable to results from Namdeb's ML 47. Also, it is important to note that multiple stones were found in 5 samples, one of which contained 6 stones. This is a major indication of concentration and confirms that a deposit lies in this specific area.

Our recent 43-101 qualifying report has enabled Afri-Can to identify two large geological Features measuring respectively 16 and 160 km². The Southern Feature has been proven to carry diamonds and, more importantly, has been proven to host concentration of diamonds of a similar size to those mined in Atlantic One and the other adjacent projects. The Northern Feature has not been sampled for diamonds yet, but the geophysical data and vibracore samples showed many similarities with Atlantic One. At 160 km², the Northern Feature is a major exploration target. It is 12 times larger than the 12.4 km² area recently sampled in Block J.

Originally EPL 3403 was held By Namdeb. However, in the mid 1990's, the Government of Namibia, concerned that the large control exercised by Namdeb over its natural resources caused a lack of exploration and development of many exploration licences, requested that Namdeb relinquish many of its concessions. From 1995 to 2005, Namdeb did relinquish many of its concessions, the last of which was EPL 3403. IMDH and its Namibian partner were granted the EPL 3403 concession in 2006.

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Exploration (Cont'd)

EPL 3403 – New Project (Cont'd)

Terms of the agreement:

EPL 3403 is wholly-owned by Thyme Investments (Pty) Ltd. ("Thyme"), which in turn is owned by IMDH and BV Investments Four Hundred and Nine (Pty) Ltd. ("BVI"). Afri-Can intends to acquire 100% of Thyme by issuing from treasury 48.75 million Afri-Can common shares to IMDH and 16.25 million Afri-Can common shares to BVI, for a total issuance of 65 million shares. At that time, IMDH will have the right to appoint two Directors to the Board of Directors of Afri-Can.

The value of the historic work programmes on EPL 3403 is estimated at about US\$9 million. The parties have agreed that the 65 million shares of Afri-Can to be issued represent a fair value for the US\$9 million value of the historical work done, and this therefore values the transaction at CAD \$0.14 per share. Closing of the sale of EPL 3403 is conditional upon Afri-Can raising a minimum of US\$5.5 million before December 31, 2010.

Upon completion of the acquisition of EPL 3403, Afri-Can will immediately commence a resource delineation programme. This programme will include regional and local sampling programmes and detailed geophysical survey and vibracoring in certain specific areas. Thereafter, Afri-Can will proceed with detailed sampling in order to delineate diamond resources and prepare for trial mining. Details of the programmes will be disclosed to our shareholders in due course.

The vessel "The Explorer" will be made available by IMDH for the sampling programme. IMDH will also make other vessels and its technical expertise available, as required.

The agreement is subject to approval by the TSX Venture Exchange.

Afri-Can management is of the opinion that the acquisition of EPL 3403 represents an excellent opportunity. The potential of the concession and the direct association with IMDH cannot be overlooked since this project has the capacity to significantly transform Afri-Can.

Qualified Person

Richard W. Foster (BSc (Hons), ARCS, Pr.Sci.Nat) is the Qualified Person under National Instrument 43-101 who has reviewed the scientific and technical information in this section of the document.

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General Discussion on Afri-Can's Business Model

The Corporation's decision to invest in the exploration for Namibian marine diamonds deposits is based on many criterias. Geologists estimate that the total southern Africa west coast potential is in excess of 2 billion carats and less than 400 million carats have been delineated to date. Namibian marine diamonds deposits host the highest gem quality content in the world at 95% and the highest average selling price in the world at US\$321.00 per carat (source: Bloomberg article Sept 2010). More than 50% of the Namibian diamond production is derived from the sea and according to De Beers information, their marine production unit is their second most profitable project.

The Corporation's exploration investments are staged and must meet specific development thresholds. At every stage, management undertakes a review of the project advancement versus internal project development thresholds. Projects must continually meet the thresholds before recommendations are made to further exploration and development.

Decisions concerning future investments in a project are always based on pro-forma economic valuation model of the project, as per the assumptions and hypothesis that can be derived from the geological information available to date.

The key questions always are: a) can the potential economic value of the project be strong enough to warrant further development , and b) can the project generate the required return on investment ?

Afri-Can established its key exploration thresholds by reviewing the history of the marine diamond industry on the west coast of Southern Africa. From these observations, the Corporation concluded that the two key elements for success are: a) avoid starting production, without a well controlled resource that has the right size to provide a good return on investment and b) controlling the cost of exploration investments in order to safeguard the future project economics.

Afri-Can Business Model Key Thresholds

Threshold #1 - Minimum resources size target:

The Corporation has established that a resource of a minimum of 1 million carats at a grade of about 0.10 carats/ m² is needed before planning full scale commercial mining. The rationale behind establishing a resource threshold of this size and grade is that; a) a resource of that size is generally mined in about 5 years. During the Life of Mine ("LOM"), the operations should generate sufficient capital to recuperate the exploration and development investments, generate a robust return on the investment and self-finance additional exploration programmes in order to extend the LOM; and b) The Corporation intends to forego the capital requirement needed to start production through the chartering of dedicated marine diamond mining vessels. Industry standard charter agreements are for 5 years. Ship owners require a 5 year-term in order to cover their substantial capital investments required to equip and maintain their marine diamond mining vessels.

Threshold #2 – Cost control - delineating the minimum resource target:

Controlling the size of the exploration investment in order to safeguard the future project economics while at the same time looking to fulfill the minimum resource size threshold requires a delicate balance.

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Afri-Can Business Model Key Thresholds (Cont'd)

Marine diamond exploration projects usually cover large areas of the sea floor. First phase reconnaissance exploration uses geophysical tools in order to identify areas where diamonds could be present while phase one reconnaissance sampling programmes use small footprint tools taking a high number of samples over very large sea floor areas in order to confirm the presence of diamonds and their potential concentration.

Marine exploration costs, versus on land diamond projects, are very high in the first phases and decrease over the course of the development cycle of a project. When a marine project reaches a stage where a potential or a resource has started to be delineated, the marginal cost, going forward, decreases substantially and quickly reaches a point where exploration investment, required to increase a marine diamond resource, becomes cheaper than a similar investment required to make the same progression on a land based diamond exploration programme.

Based upon marine diamond historical data from De Beers' discovery of the Atlantic One deposit, and from other companies that were active on the West Coast of Southern Africa, successful projects have been able to keep their exploration investment per carat in a range between 4% to 11% of the average selling price of Namibian marine diamonds as they develop the resource needed to start production.

Afri-Can's business model has established that the median point of 7.5% of the average selling price of Namibian marine diamonds represents a realistic budgeting number that the Corporation can use as its investment benchmark.

While the latest average selling price for Namibian Marine diamond is US\$321 per carat, the average selling price for diamonds mined in the vicinity of EPL 3403 is greater than US\$450 per carat and the average selling price for diamonds mined in the vicinity of EPL 2499 (Block J) is closer to US\$260 per carat.

The Corporation uses the conservative number of US\$260 per carat as its guideline and, as a result of this choice, investing up to US\$19.50 per carat ($\text{US\$260} \times 7.5\%$) represents a realistic investment target for the Corporation.

Afri-Can Business Model Implementation Guideline and Thresholds

Afri-Can's implementation guideline represents an analysis of the ongoing investment required to meet the exploration objective of delineating a resource versus the guideline cost of US\$19.50 per carat. This implies that the Corporation's total exploration investment should not surpass the US\$19.5 million mark in order to delineate a resource of one (1) million carats at a grade of about 0.10 carats/ m² in order to provide a robust return on investment for shareholders.

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Afri-Can Business Model Implementation Guideline and Thresholds (Cont'd)

Fiscal 2009 – 2010 Business development

EPL 2499 (Block J)

As of August 31, 2010, the Corporation has invested \$ 9,525,607 toward the development of EPL 2499 (Block J) and has significantly advanced its business development.

Delineation of an Inferred Diamond Resource in Feature 8 of 154,000 carats in 1,720,000 m², at an average grade of 0.09 carats/m², with some sections in the blocked out area with an average block grade of 0.20 carats/ m², enables the Corporation to advance on its stated goal of delineating a resource of about 1 million carats at a grade of about 0.10 carats/ m².

Application of the sampling results to the revised geological models outside the area of Inferred Resource indicates a potential for a further 1.2 million carats at a grade of 0.03 carats/ m² to 1.5 million carats at a grade of 0.04 carats/ m² in EPL 2499 (Block J).

As of August 31, 2010, the Corporation has only invested 49% of the total potential Business Model Budget. Therefore the Corporation has planned further exploration work on Block J in order to transform the estimated potential into an additional resource of 846,000 carats resource at a grade of about 0.10 carats/ m².

Fiscal 2010 – 2011 Business development

EPL 2499 (Block J)

The programme comprises geophysics, vibracoring, a stage 4 sampling programme and trial mining in order to develop additional resources. The sampling programme will comprise 257 samples of 5 m² each and will be focused on the extension of the high grade strip in Feature 8 in order to define the diamondiferous potential of the extension and to extend the Inferred Resources. In addition, the programme will include 100,000 m² of trial mining within the high grade strip in Feature 8.

The strengthened strategic alliance with IMDH enables the Corporation to combine its exploration strength with IMDH's technical and engineering capability.

EPL 3403

EPL 3403 is an asset that offers significant potential that will enable the Corporation to reach its minimum goal. The work previously carried out being valued at US\$9 million represents 47% of the total Business Model Budget. EPL 3403 offers the criteria to meet the stated goal of delineating a resource of a minimum of about 1 million carats at a grade of 0.10 carats/ m² within the remaining budgetary envelope.

Qualified Person

Richard W. Foster (BSc (Hons), ARCS, Pr.Sci.Nat) is the Qualified Person under National Instrument 43-101 who has reviewed the scientific and technical information in this section of the document.

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Selected Annual Financial Information

The following table sets forth selected annual financial information for the years ended August 31, 2010, 2009 and 2008:

For years ended	August 31, 2010	August 31, 2009	August 31, 2008
	\$	\$	\$
General and administrative expenses	1,222,945	1,119,925	1,342,972
Net loss	887,047	1,123,261	1,295,762
Net loss and diluted net loss per share	0.01	0.01	0.01
As at			
Current assets	714,392	50,891	391,827
Total assets	10,580,276	7,116,290	7,084,557
Current liabilities	38,144	480,570	484,791
Total liabilities	399,010	871,436	853,776
Shareholders' equity	10,181,266	6,244,854	6,230,781

Results of Operations

For fiscal 2010, the Corporation's net loss decreased by \$236,214 (or 21%) versus the same period last year, (\$887,047 versus \$1,123,261), while general and administrative expenses increased by \$103,020 (or 9%), (\$1,222,945 versus \$1,119,925).

The increase in general and administrative expenses this fiscal year as compared to last year is mainly due to:

- an increase of \$109,474 in stock-based compensation expenses; 3,590,000 options having a fair value of \$217,100 were granted this year as compared to 2,575,000 options with a fair value of \$107,626 last year;
- a decrease of \$29,854 in salaries following the reduction of a secretary's services from full time to part time;
- an increase of \$27,125 in traveling expenses. The sampling programme required more visits by management to Namibia.

The \$339,234 variance in other costs this year over last year is mostly a result of a gain on settlement of accrued liabilities of \$253,000 (Nil in 2009) and foreign exchange gain of \$57,299 this year (a loss of \$17,519 in 2009).

The Corporation's accrued liabilities of \$436,800 as of August 31, 2009 (US\$400,000) represent the Canadian dollar equivalent of exploration related charges incurred during the first phase of the exploration program completed in November 2006. In December 2009, the Corporation settled this accrued liability for \$167,000. On that date the Corporation incurred a gain on foreign exchange of \$16,800 due to the Canadian dollar valuation of the accrued liability and the balance of the accrued liability amounting to \$420,000 less the settlement of \$167,000 recorded as gain on settlement. The other foreign exchange gains result mostly from transactions in US dollars realized during the year.

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Selected Quarterly Financial Information

The following table sets forth selected financial information covering the eight most recently completed quarters:

For the quarter ended:	FISCAL 2010				FISCAL 2009			
	August 31, 2010	May 31, 2010	February 28, 2010	November 30, 2009	August 31, 2009	May 31, 2009	February 28, 2009	November 30, 2008
General and administrative ("G&E") expenses	\$ 317,307	\$ 285,437	\$ 375,972	\$ 244,229	\$ 262,953	\$ 363,345	\$ 229,474	\$ 264,153
Less: Stock-based compensation expenses	69,000	33,500	105,600	9,000	15,398	92,228	-	-
G&E less Stock-based compensation expenses	248,307	251,937	270,372	235,229	247,555	271,117	229,474	264,153
Loss before stock-based compensation	218,886	226,224	12,381	212,456	250,148	202,177	234,201	329,108
Net loss	293,886	259,724	111,981	221,456	265,547	294,405	234,201	329,108
Net loss and diluted net loss per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
As at	August 31, 2010	May 31, 2010	February 28, 2010	November 30, 2009	August 31, 2009	May 31, 2009	February 28, 2009	November 30, 2008
Current assets	714,392	850,177	2,145,368	575,358	50,891	418,396	241,332	152,505
Total assets	10,580,276	10,636,115	9,594,708	7,735,023	7,116,290	7,375,446	7,109,728	6,901,077
Current liabilities	38,144	1,011,934	29,426	491,348	480,570	500,300	614,778	578,946
Total liabilities	399,010	1,402,800	420,292	882,214	871,436	924,010	1,032,828	960,354
Shareholders' equity	10,181,266	9,233,315	9,174,416	6,852,809	6,244,854	6,451,436	6,076,900	5,940,723

Discussion on the Selected Quarterly Financial Information

General and Administrative expenses excluding non-cash stock-based compensation expenses and loss before stock-based compensation for the fourth quarter of fiscal 2010 stood at \$248,307 and \$218,886 respectively versus the average for the last seven quarters of \$252,834 and \$209,528 respectively. The loss before stock-based compensation for the quarter ended February 28, 2010 was affected by the \$253,000 gain on settlement of accrued liabilities, without this number the equivalent number for the second quarter would be \$265,381.

General and administrative expenses minus stock-based compensation enable management to be of the opinion that a range between \$225,000 and \$285,000 represents a level that is indicative of the quarterly cost of operating the Corporation. Of this amount, \$37,500 represents the president's salary and approximately \$62,500 represents compensation payable to other members of management, and professional fees payable to two directors of the Corporation. (Please refer to the section entitled Transactions with Related Parties for more details).

Fourth Quarter Discussion

In August 2010, the Corporation closed a private placement financing of units for gross proceeds of \$1,200,000 based upon the issue of 15,000,000 units at a price of \$0.08 per unit. This financing enabled the Corporation to decrease the current liabilities during this fourth quarter to \$38,144 from \$1,011,934 and the due to directors and a corporation held by a director to \$360,866 from \$390,866.

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Fourth Quarter Discussion (Cont'd)

During the fourth quarter of fiscal 2010, the Corporation incurred \$91,661 in exploration expenses for its Block J marine concession versus \$114,915 for the same period last year.

For the fourth quarter of fiscal 2010, the Corporation's net loss increased by \$28,339 versus the same period last year, (\$293,886 versus \$265,547), while general and administrative expenses increased by \$54,354 (\$317,307 versus \$262,953) due mainly to stock-based compensation cost of \$75,000 this quarter as compared to \$15,398 for the same period last year.

Investing activities in Deferred Exploration and Development Expenses

During fiscal 2010, the Corporation incurred \$2,804,410 in exploration expenses for its Block J marine concession and nil in base metal exploration expenses related to the Haib project versus \$383,915 in exploration expenses for its marine project and nil in base metal exploration expenses related to the Haib project for the same period last year.

Details of deferred exploration and development expenses for fiscal 2010 and 2009 are as follows:

	2010	2009
	\$	\$
Marine projects:		
Sampling program	2,172,284	-
Geophysics	208,000	-
Project management	-	117,468
Geologist	247,025	255,434
Stock-based compensation	146,600	6,270
Traveling and other	40,701	4,743
Diamond discovery	(10,200)	-
Terrestrial base metal (Haib) project	-	-
Increase during the year	2,804,410	383,915
Balance, beginning of year	6,082,854	5,698,939
Balance, end of year	8,887,264	6,082,854

IMDH's share of the \$2,172,284 accounted for in sampling program cost was \$2,014,171 (US\$1,952,524) and the balance of \$158,113 relates to the Corporation's technical team fees.

The estimated cost for the sampling program was US\$1,800,000, including US\$300,000 for fuel expenses. The actual fuel expenses were \$512,807 or US\$507,024 versus the estimate of US\$300,000, and this difference was solely responsible for the variation between the projected cost of the sampling program and the actual cost. The geophysics' cost is for the acquisition of data from IMDH's TOPAS (Topographical Parametric Acoustic System) geophysical survey.

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Financing Activities

Cash flows from financing activities related to the issuance of shares and units totalled \$4,072,239 in fiscal 2010 (\$1,008,400 in fiscal 2009) and consisted of the following items:

Fiscal 2010

- a) The Corporation completed two private placement financings totalling \$1,850,000 (\$92,000 received after year end in October 2010) that resulted in the issuance of 19,062,500 common shares, and 9,573,250 warrants;
- b) 14,281,590 warrants were exercised for \$2,142,239; and
- c) 1,075,000 options were exercised for \$172,000;

Fiscal 2009

The Corporation completed four private placements totalling \$954,100 that resulted in the issuance of 11,416,250 common shares, and 5,719,375 warrants. In addition, 362,000 warrants were exercised for \$54,300.

The other issuances of common shares are non-cash transactions and are described in details in Note 8 to the consolidated financial statements.

As of August 31, 2010, Afri-Can had 192,917,484 (158,468,394 as of August 31, 2009) shares issued and to be issued with a book value of \$42,463,040 (or \$0.22 of book value per share issued and to be issued), 14,957,625 warrants (19,940,150 as of August 31, 2009) and 10,940,000 options outstanding (8,035,000 as of August 31, 2009), for a fully-diluted share position of 218,815,109.

Outstanding Share, Warrant and Option Data

as of December 13, 2010	Number
Common shares	192,917,484
Warrants	14,957,625
Options	10,940,000
Fully-diluted	218,815,109

Liquidity

On average, during fiscal 2010 and 2009, Afri-Can's working capital expenditure was around \$160,000 for the quarter. For fiscal 2011, management anticipates that working capital expenditure should approximate between \$150,000 and \$200,000 per quarter. Note that these amounts do not include approximately \$100,000 per quarter of management's salaries and fees, or professional fees owed to other insiders of the Corporation, since, as in the past, these payments could be accrued and paid later or reduced if the financial position of the Corporation required it. (Please refer to Transaction with Related Parties for more details).

During fiscal 2010, the Corporation's exploration related capital expenditure totalled \$2,804,410. This amount includes \$208,000 for the acquisition of the TOPAS geophysical, the \$2,172,284 cost of the resources delineation sampling program and related diamond discovery revenues of \$10,200. Excluding these amounts, because of their one-time nature, and the non-cash stock-based compensation, the Corporation's exploration related capital expenditure was approximately \$70,000 per quarter. The Corporation anticipates that the exploration related capital amounts required for fiscal 2011 to finance its ongoing marine exploration activities should approximate \$70,000 to \$80,000 per quarter. The Corporation does not anticipate any capital amounts will be required for its base metal exploration project following the signature of the agreement on the Haib project with Teck.

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Liquidity (Cont'd)

Based on the above, the Corporation's minimum capital requirements to maintain our operations for fiscal 2011 are between \$220,000 and \$280,000 per quarter.

As a development stage company, the Corporation does not generate any cash through its operations. The ability of the Corporation to meet its current obligations and future development plans is fully dependent on management's ability to secure sufficient injection of funds from private placements and other equity or quasi-equity-related fund raising programs.

The Corporation's present cash position is not sufficient to meet the Corporation minimum capital requirements for the coming quarters. Since the execution of the original agreement with IMDH in 2006, the Corporation has been able to raise the funds required to advance the project, and pay ongoing working and exploration expenses. While the Corporation has been successful in the past, there can be no assurance it will be in the future. As a result of the successful 1st stage evaluation sampling program on its 70%-owned Block J marine diamond concession in Namibia, Afri-Can now has the foundation to strengthen its development and to achieve its primary goal of developing an economic diamond resource ready for production. Further to these results, management is receiving interest from key investors regarding financing the Corporation and its projects. Based on this interest, management is of the opinion that if negative market conditions do not worsen, the Corporation should be capable of completing the necessary financing to meet its liquidity needs over the next twelve months.

Therefore, the consolidated financial statements do not give effect to adjustments that would be necessary should the Corporation be unable to secure sufficient funds to continue as a going concern. Investors are advised that if such adjustments were required, these adjustments could be material.

Capital Resources

As at August 31, 2010, the Corporation's working capital, consisting of current assets less current liabilities, stood at \$676,248 (versus a deficit of \$429,679 as at August 31, 2009).

The Corporation's current assets of \$714,392 as at August 31, 2010 (\$50,891 as of August 31, 2009) include the following items: \$572,579 (\$30,065 as at August 31, 2009) in cash; \$134,550 (\$16,446 as at August 31, 2009) in amounts receivable; and \$7,263 (\$4,380 as at August 31, 2009) in prepaid expenses.

Afri-Can's current liabilities of \$38,144 as at August 31, 2010 (\$480,570 as of August 31, 2009) include the following items: \$38,144 (\$43,770 as at August 31, 2009) in general accounts payable and nil (\$436,800 as at August 31, 2009) relates to IMDH's exploration related charges settled in 2010) in accrued liabilities.

The Corporation's commitments for capital expenditures for the coming fiscal year are nil.

Further to the execution of sampling program by IMDH, the Corporation presently does not have any financial obligations related to its marine projects:

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Capital Resources (Cont'd)

Block J

On November 11, 2010, the Corporation announced that they had finalized the design of the work programme for furthering the development of Block J. The program will comprise geophysical surveys, vibracoring and 257 samples of 5 m² each. The sampling programme will be focused on the extension of the high grade strip in Feature 8 and northwards to define the diamondiferous potential of the extension and to extend the Inferred Resources. Furthermore, the programme will include 100,000 m² of trial mining within the high grade strip in Feature 8. The Corporation intends to raise funds from private placements to cover the Block J programme.

EPL 3403

Upon completion of the acquisition of EPL 3403, subject to the Corporation raising a minimum of US\$5.5 million, Afri-Can will immediately commence a resource delineation programme. This programme will include regional and local sampling and a detailed geophysical survey and vibracoring in certain specific areas.

Details and schedule of those programmes will be disclosed upon completion of the programme design for EPL 3403 and of the agreement between Afri-Can and IMDH concerning the chartering of the vessels for conducting the programmes.

Land based project:

Further to the signature of an Agreement for the Haib Copper project in Namibia between the Corporation, Deep South and Teck, on July 2, 2008 and its subsequent approval by the Ministry of Mines and Energy of Namibia on July 28, 2008, the Corporation has no financial obligation related to the Haib Copper project for at least the coming two years or until Teck has incurred exploration expenditures totalling US\$2 million.

Off-Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements.

Transactions with Related Parties

The Corporation carried out the following transactions with its directors or with corporations whose directors, officers and shareholders are also directors and officers of the Corporation:

	2010	2009
	\$	\$
Management fees from an officer	130,000	130,000
Professional fees from directors	104,150	133,707
Share and unit issuance costs	48,827	10,130
Administrative expenses recovered from a company managed by an officer of the Corporation	(25,565)	(19,336)

For fiscal 2010, management services fees for an amount of \$130,000 (\$130,000 in fiscal 2009), accounted for as salaries, fringe benefits and management fees was charged by a Corporation owned by the Chief Financial Officer and director of the Corporation.

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Transactions with Related Parties (Cont'd)

A director of Afri-Can provides legal and secretarial services to the Corporation. For fiscal 2010, an amount of \$29,150 (\$47,207 in fiscal 2009) in legal and secretarial fees was accounted for as professional fees in the Consolidated Statement of Operations and \$48,827 (\$10,130 in fiscal 2009) in share issuance expenses with regards to legal services rendered related to financing activities.

For fiscal 2010, professional fees for an amount of \$75,000 (\$75,000 in fiscal 2009) representing consulting fees were paid to a company managed by the Chairman in connection with consulting services rendered to Afri-Can.

Professional fees for an amount of \$Nil (\$11,500 in fiscal 2009) were paid to directors in connection with directors' consulting services rendered to Afri-Can.

For fiscal 2010, \$25,565 in expenses (\$19,336 in fiscal 2009) were recovered from a company managed by an officer and directors of the Corporation.

These transactions are completed in the normal course of operations of the Corporation and are measured at the exchange value, which is the amount agreed upon by both parties involved in the transactions.

Amounts due to directors and a corporation held by a director do not bear interest and the lenders will not request the repayment before 12 months from the date of the publication of these consolidated financial statements.

The \$360,866 total (\$390,866 as of August 31, 2009) due to directors and a corporation held by a director of Afri-Can payable at August 31, 2010 is composed of unpaid salaries and other fees payable to two members of management who are also directors and another director of the Corporation. In Fiscal 2010, the Corporation reimbursed \$30,000 to a director.

Subsequent Event

Acquisition of a marine mining concession

In October 2010, the Corporation entered into an agreement to acquire 100% of Thyme Investments (Pty) Ltd. ("Thyme") from IMDH and BV Investments Four Hundred and Nine (Pty) Ltd. in exchange for 65 million common shares of the Corporation. Thyme, a Namibian company, holds the Exploration and Prospecting License 3403 which covers about 800 km² and is located about 120 kilometres south of Luderitz in Namibia.

Closing of the purchase of Thyme is conditional upon the Corporation raising a minimum of US\$5.5 million before December 31, 2010. Upon Closing, IMDH shall have right to appoint two directors to the Board of Directors of the Corporation. The agreement is subject to approval by the TSX Venture Exchange.

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Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related amounts of revenues and expenses during the reporting period. Significant areas where management judgement is applied are the recoverability of mining properties and of deferred exploration and development expenses, the valuation of stock based compensation and warrants, the valuation of environmental liabilities and disclosure of the contingent liability. These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. Actual results could differ from these estimates.

A detailed summary of the entire Corporation's significant accounting policies and the significant estimates derived there from is included in Note 2 to the Annual Consolidated Financial Statements for the years ended August 31, 2010 and 2009.

Changes in Accounting Policies Including Initial Adoption

Taking effect September 1, 2009, according to the transition dispositions, the Corporation adopted the following new accounting policy published by the Canadian Institute of Chartered Accountants ("CICA"):

Financial Instruments: In June 2009, the CICA amended Section 3862, "Financial instruments - disclosure". This section has been amended to introduce new financial disclosure requirements, particularly with respect to fair value measurement of financial instruments (three hierarchy levels) and entity exposure to liquidity risk. The amendments to this section apply to annual financial statements for years ending after September 2009. Disclosure and presentation requirements pertaining to this section are contained in Note 11 of the consolidated financial statements of fiscal 2010 and have no impact on the Corporation's financial results.

Financial Instruments

Financial instruments used by the Corporation consist of cash, subscription receivable and other amounts receivable, accounts payable and accrued liabilities, and due to directors and a corporation held by a director. Cash, subscription receivable and other amounts receivable, accounts payable and accrued liabilities, and due to directors and a corporation held by a director are financial instruments used for working capital and any other corporate purposes.

As of August 31, 2010, the Corporation's Canadian and US cash was held in an interest bearing account with HSBC Bank of Canada. The Corporation's Namibian denominated cash was held in an interest bearing account with The First National Bank of Namibia.

Subscription receivable and other amounts receivable are classified as loans and receivables. They are measured at amortized cost, which is generally the initially recognized amount, less any allowance for doubtful accounts. Accounts payable and accrued liabilities, and due to directors and a corporation held by a director are classified as other financial liabilities. They are measured at amortized cost. Transaction costs, if so, are applied against the carrying amount of any related financial liabilities.

The Corporation operates internationally and as such is exposed to fluctuations in foreign exchange rates. The Corporation does not currently use financial instruments to limit its exposure to fluctuations in foreign exchange rates.

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IFRS Convergence

The Corporation is using a four step roadmap to convert to IFRS:

STEP 1: DIAGNOSTIC

The initial diagnostic stage has been completed in 2009 to understand, identify and assess the overall effort required to produce financial information under IFRS.

STEP 2: DESIGN AND PLANNING

STEP 2.1: ACCOUNTING POLICIES

The detailed analysis of the accounting policies impacted by the IFRS convergence is expected to be completed by the end of May 2011.

Set out below are the main areas where changes in accounting policies are expected to have a significant impact on the Corporation's financial statements. The list below should not be regarded as a complete list of changes that will result from transition to the IFRS. It is intended to highlight areas that the Corporation believes to be the most significant; however, the analysis of changes is still in process and the selection of accounting policies where choices are available under IFRS has not been completed. We note that the regulatory bodies that promulgate the Canadian GAAP and the IFRS have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Corporation's financial statements in future years. The future impacts of the IFRS will also depend on the particular circumstances prevailing in those years. The standards listed below are those existing based on current Canadian GAAP and IFRS. At this stage, the Corporation is not able to reliably quantify the expected impacts of these differences on its financial statements.

They are as follows:

First time adoption (IFRS 1)

IFRS 1 provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS standards in force at the date an entity first reports using IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

- optional exemptions from specific aspects of certain IFRS standards in the preparation of the Corporation's opening balance sheet; and
- mandatory exceptions to retrospective application of certain IFRS standards.

Additionally, to ensure financial statements contain high-quality information that is transparent to users, IFRS 1 contains disclosure requirements to highlight changes made to financial statement items due to the transition to IFRS.

The Corporation is presently evaluating the impact of these potential modifications.

Share-based payment (IFRS 2)

The Corporation manages equity-settled stock based remuneration plans for its directors, officers, employees and consultants. The plan does not feature any options for a cash settlement. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

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IFRS Convergence (Cont'd)

Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at grant date, using the Black-Scholes option pricing model.

For graded-vesting features, IFRS requires each instalment to be treated as a separate share option grant, because each instalment has a different vesting period and hence the fair value of each instalment will differ. However, pre-change accounting standards allow an entity the option of either using the graded vesting method or the straight-line method which recognizes expenses equally over the average life of the grant. The Corporation is already using the graded vesting method.

An individual is classified as an employee when the individual is an employee for legal or tax purposes (including directors and officers) or provides services similar to those performed by an employee. This definition of an employee is broader than that currently applied by the Corporation and will result in certain contractors and consultants being classified as employees under IFRS. During the convergence, one consultant in Namibia was reclassified as employee but it did not create a material adjustment.

For option granted to non-employees, IFRS requires that stock-based compensation be measured at the fair value of the services received unless the fair value of the services cannot be reliably measured.

Per IFRS, the forfeiture rate, with respect to share options, needs to be estimated by the Corporation at the grant date instead of recognizing the entire compensation expense and only record actual forfeitures as they occur. A forfeiture occurs when an option is granted with a vesting period, but the person who received the option leaves before all the option is vested. Each quarter, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. There was no forfeiture for options granted since the adoption of section 3870 and consequently we have considered the forfeiture rate to be nil based on our past experience. At the date of transition, there was no adjustment needed relating to forfeiture.

According to IFRS 1 transition rules, the Corporation adopts IFRS 2 on all options granted after November 7, 2002 that there were not yet vested on the transition date. The Corporation has no option issued between November 7, 2002 and the adoption date of section 3870, that were not vested on transition date.

Exploration and evaluation ("E&E") assets (IFRS 6)

Under IFRS, the Corporation must identify and account for pre-E&E, E&E and development expenditure separately. There was no such obligation under pre-change accounting standards. The E&E phase begins when the Corporation obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Pre-E&E costs are and must be expensed.

E&E costs may be expensed as incurred or capitalised. Indeed according to IFRS, an entity must determine an accounting method determining which expenses are accounted for as an E&E asset considering the level the expense can be associated with a mineral resource.

Unlike IFRS, pre-change accounting standards indicates that exploration costs may initially be capitalized if the Corporation considers that such costs have the characteristics of property, plant and equipment. Amongst Canadian exploration companies that have announced their IFRS treatment, some are capitalising and the others are expensing the E&E costs. In Australia, most of the exploration companies that we have reviewed capitalize their E&E costs.

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IFRS Convergence (Cont'd)

The management believes that it's important and relevant to display on the face of the statement of financial position that mining assets are one of its most valuable assets and the essence of the Corporation's business. Consequently the Corporation will continue to capitalize E&E costs. There is no transition impact on the statement of financial position and the statement of comprehensive loss.

E&E costs for each separate area of interest are recognized as an E&E asset where the following conditions are satisfied:

- The rights to explore the area of interest are current; and
- At least one of the following conditions is met:
 - o E&E costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
 - o E&E activities in the area interest have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

E&E assets include: the acquisition of rights to explore; research and analysis of existing exploration data; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching; sampling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. General and administrative costs are only allocated to the extent that they can be related directly to operational activities in the relevant area of interest.

In terms of presentation, we intend to use the IFRS terminology of E&E expenses on the face of the statement of financial position. In the notes, we will disclose the contribution of partners, if any, in an option agreement instead of presenting the additions on a net basis.

E&E assets shall be classified as either tangible property plant and equipment or intangible asset according to the nature of the assets acquired. The Corporation will present them as intangible assets under the description exploration and evaluation assets on the face of the statement of financial position.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the costs capitalised in E&E assets are transferred to mining assets in development. Following this transfer, all construction, installation and infrastructure costs will be capitalized in the mining assets in development category. At the end of the development phase, all assets in the mining assets in development will be transferred to mining assets and will be amortized according to the unit of production mode.

Under IFRS, initial measurement of E&E is at cost. Subsequently the Corporation can elect to measure exploration and evaluation assets using either the cost model or the revaluation model. Under pre-change accounting standards, E&E are measured at cost and the revaluation of E&E is not allowed other than during business combination. Based on our review, the revaluation model has not been widely selected as an accounting policy due to the difficulty and the effort required to continually monitoring fair values. Since it believes the cost is more reliable, the Corporation will continue to use the cost for initial and subsequent measurement and therefore there is no transition impact on the statement of financial position and statement of comprehensive loss.

No depreciation charge is recognized during the E&E phase. In circumstances where a property is abandoned or it is established that the E&E costs capitalized cannot be recovered, the cumulative capitalised costs relating to the property are written down to their recoverable amounts.

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IFRS Convergence (Cont'd)

IFRS 6's requirements for impairment are different to IAS 36 for: considering what are the triggering events and the level at which impairment testing is performed. E&E assets are assessed for impairment annually if facts and circumstances indicate that impairment may exist. Following is a non exhaustive list of trigger events examples: the right to explore has, or will in the near future, expire, and renewal is not expected; further E&E expenses are not budgeted nor planned; the decision to discontinue activities had been made due to lack of discovery; the development is likely but the E&E asset is unlikely to be recovered in full. Concerning the level at which impairment testing is performed; IFRS 6 allows E&E assets to be grouped with producing assets. Since the Corporation has no producing asset at the moment, impairment testing will be done on an area of interest basis. Finally, under pre-change accounting standards, there is a presumption that a write-down is necessary when there has been a delay in development activity that extends beyond three years; there is no such presumption under IFRS.

Impairment of assets (IAS 36)

At least once a year, the carrying amount of the Corporation's assets is reviewed to determine whether there is any indication that those assets are impaired. The impairment loss is the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, management estimates the future cash flows for each asset or cash generating unit and then it determines an appropriate interest rate to calculate the present value of the cash flows. The actualisation factors are established individually for each assets or cash generating unit and reflect their risk profile determined by management. If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of comprehensive loss for the period. For an asset that does not generate largely independent cash flow, the recoverable amount is determined for the cash generating unit to which the asset belongs. For E&E asset, the cash generating unit will be the area of interest.

IFRS requires the use of a one-step impairment test (impairment testing is performed using discounted cash flows) rather than the two-step test under pre-change accounting standards (using undiscounted cash flow as a trigger to identify potential impairment loss). IFRS requires reversal of impairment losses (excluding goodwill) where previous adverse circumstances have changed; this is prohibited under pre-change accounting standards. The Corporation believes that the changes of this policy should not have an impact on the financial statements on the changeover date. Nevertheless, in the subsequent years, this policy could generate more volatility in the statement of comprehensive loss.

When an impairment loss subsequently reverses when it is justified by a change of circumstances, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in the statement of comprehensive loss.

The Corporation assessed its assets by reviewing the trigger events and found that no impairment losses were required to be recognized as at the transition date.

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IFRS Convergence (Cont'd)

Financial instruments (IAS 39)

Under IFRS, all financial assets must be classified into "loans and receivables", held-to-maturity", "fair value through profit or loss" or "available-for-sale" categories. Like IFRS, all financial assets under Canadian GAAP must be classified into "loans and receivables", "held-to-maturity", "held-for-trading" (fair value through profit or loss) or "available-for-sale" categories. However, there are certain differences from IFRS with respect to the types of assets that may be classified into each of these categories.

Financial instruments may be designated on initial recognition as measured at fair value through profit or loss only if certain criteria are met. Like IFRS, financial instruments may be designated on initial recognition as held-for-trading (and measured at fair value through profit and loss) only if certain criteria are met. However, these criteria are less restrictive than under IFRS.

The Corporation is presently evaluating the impact of these potential modifications.

STEP 2.2: FINANCIAL STATEMENTS PREPARATION

By the end of May 2011, we will prepare the financial statement model and we will identify the IFRS convergence adjustments.

STEP 2.3: TRAINING AND COMMUNICATION

Members of the Corporation's finance department have taken steps to become proficient in IFRS, including participating in IFRS training sessions.

A communication plan beyond the mandatory disclosure required in the MD&A will be developed in the summer 2011 if the changes on the financial statements are important.

STEP 2.4: IT SYSTEMS

The accounting processes of the Corporation are simple since it is still at the exploration stage and no major challenges are expected at this point to operate the accounting system under the IFRS. Nevertheless, some Excel spreadsheets will probably have to be adapted to support the changes made in accounting policies.

The Corporation has yet to establish if historical data will have to be regenerated to comply with some of the choices to be made under IFRS 1.

STEP 2.5: INTERNAL CONTROLS:

By the end of May 2011, Management will review existing internal control process and procedures to address significant changes to existing accounting policies and practices.

STEP 2.6: IMPACT ON THE BUSINESS:

The business processes of the Corporation are simple and no major challenges are expected at this point to operate under IFRS.

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IFRS Convergence (Cont'd)

STEP 3: IMPLEMENTATION

In this stage the Corporation will implement the changes that have been developed including changes to the accounting processes and policies. The Corporation will also quantify the IFRS impacts.

Management will prepare the structure of the first quarterly financial statements as of November 30, 2011 with the opening balance as of September 1st, 2010 and the comparables as of November 30, 2010 with the disclosure notes.

Management plans to complete this step in the summer 2011.

STEP 4: POST IMPLEMENTATION

Management will prepare the interim and annual financial statements in compliance with IFRS for the year ending August 31, 2012.

Stock Option Plan

The purpose of the Stock Option Plan (the "Plan") is to serve as an incentive for the directors, officers and service providers who will be motivated by the Corporation's success as well as to promote ownership of common shares of the Corporation by these people. There is no objective attached to the Plan and no relationship to manage the Corporation's risks.

Management's Report on Internal Control over Financial Reporting

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Corporation will file a Venture Issuer Basic Certificate with respect to the financial information contained in the audited consolidated financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate required for non-venture issuers under Regulation 52-109 respecting Certification of Disclosure in Issuer's Annual and Interim Filings, the Venture Issuer Basic Certification includes a 'Note to Reader' stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in Regulation 52-109.

Risks

The Corporation strongly depends on the business and technical expertise of its management and technical team and there is little possibility that this dependence will decrease in the near term.

All of the resource properties in which the Corporation has joint-venture agreements are at the exploration stage only and are without a known body of commercial ore or minerals. Substantial expenditures are required for our marine exploration programs and the development of reserves. In the absence of cash flow from operations, the Corporation relies on capital markets to fund its exploration and evaluation activities. Capital market conditions and other unforeseeable events may impact the Corporation's ability to finance and develop its projects.

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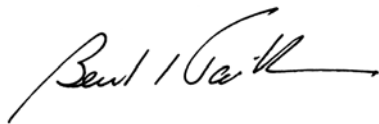
Risks (Cont'd)

While discovery of diamonds may result in substantial rewards, few exploration properties ultimately evolve into producing mines. Major expenditures are required to identify, confirm reserves and to construct mining and processing facilities. It is impossible to know whether the Corporation's current exploration programs will ultimately result in a profitable commercial mining operation.

A number of factors determine the economic viability of a diamond deposit. They include the size of the deposit; the quantity, quality and average unit carat size of the diamonds; the proximity of the deposit to existing infrastructure; the estimated development and operating costs; the financing costs and the projected cash flows; the prevailing prices and markets for diamonds; and the competitive nature of the industry. Also of key importance are governmental regulations, including those relating to taxes, royalties, land use, the environment, and interests and socio-economic impacts on affected communities.

In addition, although the Corporation has taken steps to verify that it holds good title to its mineral properties, there can be no guarantee that the Corporation's title may not be subject to unregistered prior agreements, encumbrances or adverse regulatory requirements. The consequences of these risks cannot be accurately predicted, but any combination of them may impair the development of a deposit or render it uneconomic.

The Corporation intends to continue the evaluation and exploration of its properties subject to the availability of financing on acceptable terms. The Corporation intends to finance these activities either through existing financial resources or through additional equity or quasi-equity financing. However, there can be no assurance that the Corporation will be able to raise such additional equity.



Bernard J. Tourillon, MBA
Executive Vice-President and CFO

Montreal, December 13, 2010