



**Notice to National Instrument 51-102:**

The attached unaudited financial statements and notes thereto have been prepared by management and have not been independently audited or reviewed by the auditor of Diamcor Mining Inc.

## **Condensed Consolidated Financial Statements**

**For the Interim Period Ended  
June 30, 2011**

**DIAMCOR MINING INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at June 30, 2011, March 31, 2011 and April 1, 2010**  
**(unaudited)**

	June 30 2011	March 31 2011 (note 18)	April 1 2010 (note 18)
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 5,020,806	\$ 5,592,680	\$ 1,894,319
Accounts receivable	454,486	398,991	211,447
	5,475,292	5,991,671	2,105,766
<b>NON CURRENT</b>			
REHABILITATION TRUST FUND (Note 5)	38,377	38,619	37,248
DEPOSITS AND PREPAIDS (Note 4)	2,000	-	207,750
PROPERTY, PLANT AND EQUIPMENT (Note 3)	113,397	121,494	139,484
MINERAL PROPERTIES (Note 4)	2,311,893	2,186,811	-
<b>Total assets</b>	<b>\$ 7,940,959</b>	<b>\$ 8,338,595</b>	<b>\$ 2,490,248</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable	\$ 336,080	\$ 388,619	\$ 204,983
Asset retirement obligation (Note 8)	328,598	326,152	316,651
Current portion of long term debt (Note 7)	2,998	3,218	2,975
Deferred income	222,077	223,478	242,988
Share capital purchase deposits	-	-	188,967
Short term debt (Note 6)	-	-	385,530
Taxes payable	7,552	303	18,230
	897,305	941,770	1,360,324
<b>NON CURRENT</b>			
LONG TERM DEBT (Note 7)	5,599,151	5,503,726	3,779
DEFERRED INCOME TAX	1,698	1,709	1,648
ASSET RETIREMENT OBLIGATION (Note 8)	120,805	119,906	-
DUE TO NOZALA INVESTMENTS (Note 7)	963,357	950,066	94,971
	7,582,316	7,517,177	1,460,722
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital (Note 9)	9,589,774	9,461,125	8,738,841
Contributed surplus (Note 10)	4,033,331	3,465,619	2,004,473
Convertible debt (Note 7)	-	-	-
Warrants (Note 9)	1,732,918	1,806,910	1,530,867
Accumulated and other comprehensive income	(63,264)	(49,989)	-
Deficit	(14,746,617)	(13,732,196)	(11,244,655)
Non-controlling interests	(187,499)	(130,051)	-
<b>Total equity</b>	<b>358,643</b>	<b>821,418</b>	<b>1,029,526</b>
<b>Total liabilities and equity</b>	<b>\$ 7,940,959</b>	<b>\$ 8,338,595</b>	<b>\$ 2,490,248</b>

**COMMITMENTS** (Note 15)

**SUBSEQUENT EVENTS** (Note 17)

**DIAMCOR MINING INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(unaudited)**

	For the Three Months Ended June 30 2011	For the Three Months Ended June 30 2010
<b>SALES</b>	\$ -	\$ -
<b>COST OF SALES</b>	24,881	
<b>GROSS LOSS</b>	(24,881)	-
<b>EXPENSES</b>		
Accretion and amortization	10,406	7,849
Consulting fees	53,662	61,300
Insurance	6,232	5,352
Interest and bank charges	116,252	43,985
Office	26,064	24,938
Professional fees	83,916	36,475
Promotion and investor relations	70,228	55,366
Salaries and wages	118,571	120,237
Stock based compensation	540,000	696,000
Transfer agent and regulatory fees	7,227	18,522
Travel	23,013	26,268
	1,055,571	1,096,292
<b>LOSS FROM OPERATIONS</b>	\$ (1,080,452)	\$ (1,096,292)
<b>OTHER INCOME AND EXPENSES</b>		
Interest and other Income	8,583	627
Foreign exchange gain (loss)		2,817
	8,583	3,444
<b>LOSS BEFORE INCOME TAX</b>	(1,071,869)	(1,092,848)
Current income taxes	-	-
<b>NET LOSS FOR THE PERIOD</b>	\$ (1,071,869)	\$ (1,092,848)
<b>Total comprehensive loss attributable to:</b>		
Non-controlling interests	\$ (57,448)	\$ (4,610)
Equity holders of parent	(1,014,421)	(1,088,238)
	\$ (1,071,869)	\$ (1,092,848)
<b>Other comprehensive income</b>		
Foreign currency translation gain (loss)	\$ (13,275)	\$ (4,474)
<b>Total comprehensive loss for the period</b>	\$ (1,027,696)	\$ (1,092,712)
<b>Loss per share - basic and diluted (Note 9)</b>	\$ (0.04)	\$ (0.05)

Fully diluted (loss) earnings per share are not disclosed as the results are anti-dilutive.

**DIAMCOR MINING INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

	For the Three Months Ended June 30 2011	For the Three Months Ended June 30 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,071,869)	\$ (1,092,848)
<b>Items not affecting cash</b>		
Accretion and amortization	10,406	7,849
Stock based compensation	540,000	696,000
Other comprehensive income	(11,308)	(12,767)
Financing expense paid	(24,241)	-
Financing expense	24,241	-
	539,098	691,082
	(532,771)	(401,766)
<b>Changes in non-cash working capital</b>		
Accounts payable	(52,537)	(14,733)
Accounts receivable	(55,492)	113,933
Taxes payable	7,249	(18,230)
Prepays	(2,000)	-
	(102,780)	80,970
Cash flow used by operating activities	(635,551)	(320,796)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to mineral properties	(138,788)	-
Cash flow used from investing activities	(138,788)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance (repayment) of long term debt	108,496	(722)
Issuance (repayment) of short term debt	-	(385,530)
Share capital purchase deposits	-	(188,967)
Proceeds from issuance of share capital	82,369	1,523,972
Cash flow from financing activities	190,865	948,753
<b>Effect of change in exchange rate for cash</b>	11,600	630
<b>Increase (Decrease) in cash and cash equivalents</b>	(571,874)	628,587
Cash and cash equivalents - beginning of year	5,592,680	1,894,319
Cash and cash equivalents - end of period	\$ 5,020,806	\$ 2,522,906

**DIAMCOR MINING INC.**  
**CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(unaudited)

	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive Income	Non-controlling interests	Total Shareholders' Equity
Balance - April 1 2010	8,738,841	2,004,474	1,530,867	(11,244,655)	-	-	1,029,527
Issued during fiscal 2011							
Issuance of warrants	(743,196)	-	743,196	-	-	-	-
Private placement	1,651,547	-	-	-	-	-	1,651,547
Broker warrants	(73,992)	-	73,992	-	-	-	-
Share issuance costs	(127,575)	-	-	-	-	-	(127,575)
Option grant	-	696,000	-	-	-	-	696,000
Other Comprehensive Income	-	-	-	-	(4,474)	-	(4,474)
Non-controlling interests	-	-	-	-	-	(4,610)	(4,610)
Loss for the period	-	-	-	(1,088,238)	-	-	(1,088,238)
Balance - June 30, 2010	9,445,625	2,700,474	2,348,055	(12,332,893)	(4,474)	(4,610)	2,152,177
Balance - April 1, 2011	9,461,125	3,465,619	1,806,910	(13,732,196)	(49,989)	(130,051)	821,418
Issued during fiscal 2012							
Issuance of warrants	-	-	-	-	-	-	-
Exercise of warrants	87,316	-	(24,947)	-	-	-	62,369
Expiry of warrants	-	49,045	(49,045)	-	-	-	-
Exercise of options	41,333	(21,333)	-	-	-	-	20,000
Option grant	-	540,000	-	-	-	-	540,000
Other Comprehensive Income	-	-	-	-	(13,275)	-	(13,275)
Non-controlling interests	-	-	-	-	-	(57,448)	(57,448)
loss for the period	-	-	-	(1,014,421)	-	-	(1,014,421)
Balance - June 30 2011	9,589,774	4,033,331	1,732,918	(14,746,617)	(63,264)	(187,499)	358,643

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### 1. NATURE OF OPERATIONS AND GOING CONCERN

Diamcor Mining Inc. (the "Company") was incorporated under the Company Act of British Columbia. Its principal business activity is the production of diamonds in South Africa through its subsidiaries So Ver Mine (Pty) Ltd ("So Ver"), DMI Minerals South Africa (Pty) Ltd, DMI Diamonds South Africa (Pty) Ltd (formally Blue Dust 25 (Pty) Ltd) and Jagersfontein Diamond Mining Company (Pty) Ltd.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on September 28, 2011. The company's address is 630, 1620 Dickson Avenue Kelowna, British Columbia V1Y 9Y2, Canada.

### Statement of Compliance

The unaudited financial statements of the Company comply with International Financial Reporting Standards ("IFRS") applicable to interim financial statements, including IAS 34 and IFRS 1. The policies applied in these interim financial statements are based on IFRS issued and outstanding as of June 30, 2011. Any subsequent changes to IFRS that are given in the annual consolidated financial statements for the year ending March 31, 2012 could result in restatement of these interim financial statements, including the transition adjustments recognized on change-over to IFRS. This is the Company's first interim financial statements prepared in accordance with IFRS. The 2010 financial statements include an opening balance sheet as at April 1, 2010, date at which the impact of IFRS transition was recorded against equity, in accordance with the provisions of IFRS 1 "First time adoption of International Financial Reporting Standards" and the 2010, 2011 comparative statements were prepared using the same basis of accounting. A detailed reconciliation of the financial statements prepared under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and the comparative 2010 IFRS financial information is presented in note 18.

The Company prepared its opening Consolidated Balance Sheet and financial statements for 2010 and 2011 by applying IFRS that are in effect as at June 30, 2011. Accordingly, the opening Consolidated Balance Sheet and financial statements for 2010, 2011 and 2012 may differ from these financial statements if new standards are subsequently enacted.

### 2. Basis of preparation

The consolidated financial statements of Diamcor Mining Inc. and all its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Canadian dollars.

#### 2.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at June 30, 2011. Subsidiaries are fully consolidated. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions are eliminated in full. Where the ownership of a subsidiary is less than 100%, and therefore a non-controlling interest exists, any losses of that subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. Where losses applicable to the minority exceed the minority interest in the equity of the relevant subsidiary, the excess, and any further losses attributable to the minority, are charged to the group.

Details of the company's subsidiaries as at June 30, 2011 are as follows:

Name	Place of Incorporation	Interest
DMI Diamonds South Africa (Pty) Ltd.	South Africa	100%
Jagersfontein Diamond Mining Company (Pty) Ltd.	South Africa	100%
DMI Minerals South Africa (Pty) Ltd	South Africa	70%
So Ver mine (Pty) Ltd.	South Africa	85%

#### 2.2 Significant accounting judgments, estimates and assumptions

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

### ***Mineral property and exploration costs***

The application of the Group's accounting policy for mineral properties and exploration costs requires judgment in determining whether it is likely that future economic benefits are likely either from future exploration or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a reserve is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. 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 expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

### ***Reserve and resource estimates***

Diamond reserves are estimates of the amount of diamonds that can be economically and legally extracted from the Group's mining properties. The Group estimates its reserves and a mineral resource based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, goodwill, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortization charges. The company is currently in the process of evaluating the reserve and resource estimates.

### ***Units-of-production depreciation***

Estimated recoverable reserves are used in determining the depreciation and / or amortization of mine specific assets. This results in a depreciation / amortization charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Numerous units-of-production (UOP) depreciation methodologies are available to choose from. The Group adopts a Run of the Mine (ROM) tonnes of ore produced methodology for mining costs and an carats per tonne of diamonds produced methodology for post mining costs. Changes are accounted for prospectively. The Company currently has no production.

### ***Impairment of non-financial assets***

The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. 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. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

assessments of the time value of money and the risks specific to the asset. Management has assessed its cash generating units as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets.

### ***Recovery of deferred tax assets***

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

## **2.3 Summary of significant accounting policies**

### ***Cash and short-term deposits***

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less.

### ***Inventories***

Diamonds are physically measured or estimated and valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product. Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortization, incurred in converting materials into finished goods. Materials and supplies are valued at the lower of cost or net realizable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

### ***Mineral property and exploration costs***

The Cost of mineral properties and their related exploration costs are deferred until the properties are placed into production, sold or abandoned. These costs are amortized on a unit-of-production basis following the commencement of the production or written off if the properties are sold or abandoned. If the properties are considered to be impaired in value, an appropriate charge will be made at the time.

The recorded cost of mineral claims and deferred exploration costs represents costs incurred and are not intended to reflect present or future values. The ultimate recovery of such capitalized costs is dependent upon the discovery and development of economic reserves or the sale of mineral rights.

### ***Property, plant and equipment***

Upon completion of mine construction, the assets are transferred into property, plant and equipment or mine properties. Items of property, plant and equipment and mine properties are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment. When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements or mineable reserve development. Accumulated mine development costs are depreciated/amortized on a unit-of-production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight-line method is applied based on the life of the asset. Rights and concessions are depleted

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

on the unit-of-production basis over the total reserves of the relevant area. The unit-of-production rate for the depreciation/amortization of mine development costs takes into account expenditures incurred to date, together with sanctioned future development expenditures.

Other plant and equipment such as mobile mine equipment is generally depreciated over their estimated useful lives as follows:

- Office equipment 20 -45% declining balance
- Other equipment 15% declining balance
- Leasehold improvements 5 year straight-line

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized. The asset's residual values, useful lives and methods of depreciation/amortization are reviewed at each reporting period, and adjusted prospectively if appropriate.

### ***Impairment of non-financial assets***

The carrying amounts of non-current assets are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense immediately. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit ("CGU") to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. 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. 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. For mining assets, fair value less cost to sell is often estimated using a discounted cash flow approach as a fair value from an active market or binding sale agreement is not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Tangible assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized into earnings immediately.

### ***Mine rehabilitation provision***

The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, and cost increases these uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss. If the change in estimate results in an increase in the rehabilitation liability and therefore an addition to the carrying value of the asset, the entity is required to consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense. For closed sites, changes to estimated costs are recognized immediately in profit or loss. Also, rehabilitation obligations that arose as a result of the production phase of a mine should be expensed as incurred.

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

The consolidated financial statements are presented in Canadian dollars, which is the parent company's functional currency. Transactions in foreign currencies are initially recorded in the functional currency, at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The financial results of Group entities that have a functional currency different from the presentation currency are translated into the presentation currency. The presentation currency of the Company is Canadian Dollars. The functional currency of all of the subsidiaries is the South African Rand. Income and expenditure transactions of foreign operations are translated at the average rate of exchange for the year except for significant individual transactions which are translated at the rate of exchange in effect at the transaction date. All assets and liabilities, including fair value adjustments are translated at the rate of exchange ruling at the reporting date. Differences arising on translation from the Transition Date are recognized as other comprehensive income and are included in the foreign currency translation reserve ("FCTR"). When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in a foreign operation and are recognized in other comprehensive income and are included in the FCTR. On disposal of part or all of the operations, the proportionate share of the related cumulative gains and losses previously recognized in the FCTR through the statement of comprehensive income are included in determining the profit or loss on disposal of that operation recognized in the profit or loss.

### ***Financial instruments***

#### ***Initial recognition and measurement***

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset. The Group's financial assets include cash and, accounts receivable.

#### ***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

#### ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss includes: financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

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finance income or finance costs in profit or loss. Transaction costs are expensed. Assets in this category include cash and cash equivalents.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in profit or loss. The losses arising from impairment are recognized in profit or loss in finance costs. The group has designated accounts receivable as loans and receivables.

### **Other financial liabilities**

Other financial liabilities are initially measured at fair value, net of transaction costs, are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Group's financial liabilities include accounts payable, and accrued liabilities, short term debt, long-term debts and due to Nozala Investments.

### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### ***Income taxes***

Income tax expense comprises current and deferred income tax. Income tax is recognized in the income statement, except to the extent it relates to items recognized in other comprehensive income or directly in equity.

#### ***Current income tax***

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### ***Deferred income tax***

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Statement of Financial Position. Deferred income tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

#### **Deferred income tax liabilities:**

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

### **Deferred income tax assets:**

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

### **Revenue recognition**

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. Revenue is measured at the fair value of the consideration received or receivable. The company currently has no revenue.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **Stock-based compensation**

The Company uses the fair value method of accounting for all stock-based compensation, including options granted under the Company's incentive stock option plan. Compensation expense for options granted is determined based on the estimated fair values of the stock options at the time of grant, the cost of which is recognized over the vesting periods of the respective options. Stock-based compensation expense is recorded as a charge to operations with a corresponding credit to contributed surplus. Consideration paid for shares on the exercise of options is credited to share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed.

### **Loss per share**

Basic EPS is calculated by dividing the comprehensive income or loss attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS. All options are considered anti-dilutive when the Company is in a loss position.

### **Recent pronouncements issued**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC"). The standards impacted that are applicable to the Company are as follows:

IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard.

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

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IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### 3. PROPERTY, PLANT AND EQUIPMENT

	<i>Plant and Equipment \$</i>	<i>Motor Vehicles \$</i>	<i>Office Equipment \$</i>	<i>Computers \$</i>	<i>Leaseholds \$</i>	<i>Total \$</i>
<b>Cost</b>						
<b>Balance, April 1, 2010</b>	<b>861,026</b>	<b>18,005</b>	<b>32,732</b>	<b>37,254</b>	<b>33,090</b>	<b>982,107</b>
Translation adjustments	31,705	663	39	41	-	32,448
<b>Balance, March 31, 2011</b>	<b>892,731</b>	<b>18,668</b>	<b>32,771</b>	<b>37,295</b>	<b>33,090</b>	<b>1,014,555</b>
Translation adjustments	(5,595)	(117)	(7)	(7)	-	(5,726)
<b>Balance, June 30, 2011</b>	<b>887,136</b>	<b>18,551</b>	<b>32,764</b>	<b>37,288</b>	<b>33,090</b>	<b>1,008,829</b>
<b>Accumulated Depreciation</b>						
<b>Balance, April 1, 2010</b>	<b>771,904</b>	<b>7,127</b>	<b>17,031</b>	<b>30,017</b>	<b>16,544</b>	<b>842,623</b>
Depreciation	4,128	4,595	3,682	3,398	6,206	22,009
Translation adjustments	28,488	334	10	(403)	-	28,429
<b>Balance, March 31, 2011</b>	<b>804,520</b>	<b>12,056</b>	<b>20,723</b>	<b>33,012</b>	<b>22,750</b>	<b>893,061</b>
Depreciation	2,689	1,159	670	505	2,040	7,063
Translation adjustments	(5,040)	(75)	(2)	425	-	(4,694)
<b>Balance, June 30, 2011</b>	<b>802,169</b>	<b>13,140</b>	<b>21,391</b>	<b>33,942</b>	<b>24,790</b>	<b>895,432</b>
<b>Net book value, April 1, 2010</b>	<b>89,122</b>	<b>10,878</b>	<b>15,701</b>	<b>7,237</b>	<b>16,546</b>	<b>139,848</b>
<b>Net book value, March 31, 2011</b>	<b>88,211</b>	<b>6,612</b>	<b>12,048</b>	<b>4,283</b>	<b>10,340</b>	<b>121,494</b>
<b>Net book value, June 30, 2011</b>	<b>84,967</b>	<b>5,411</b>	<b>11,373</b>	<b>3,346</b>	<b>8,300</b>	<b>113,397</b>

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### 4. MINERAL PROPERTIES

Title to mining 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 conveyance history characteristic of many mining properties. The Company has diligently investigated rights of ownership of all of the mineral concessions in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee to title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

During fiscal 2009 the Company entered into a purchase agreement with De Beers Consolidated Mines Limited (DBCM) for the purchase of certain mineral rights and assets which closed in fiscal 2011. A deposit of \$207,750 was being held in trust payable to DBCM in the year ended April 1, 2010 as part of the purchase conditions.

#### Cost

<b>Balance, April 1, 2010</b>	-
Additions	2,186,811
Translation adjustments	-
<b>Balance, March 31, 2011</b>	<b>2,186,811</b>
Translation adjustments	125,082
<b>Balance, June 30, 2011</b>	<b>2,311,893</b>

### 5. REHABILITATION TRUST FUND

#### Deposit at Department of Mineral Resources in South Africa for Rehabilitation

<b>Costs</b>	<b>\$</b>
<b>Balance, April 1, 2010</b>	<b>37,248</b>
Additions/(Disposals)	-
Translation adjustments	1,371
<b>Balance, March 31, 2011</b>	<b>38,619</b>
Additions/(Disposals)	-
Translation adjustments	(242)
<b>Balance June 30, 2011</b>	<b>38,377</b>

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### 6. SHORT TERM DEBT

In December 2009, the Company completed a \$400,000 short term loan financing with a portion of the amount being financed through related parties which consist of a company owned by a director and employees of the Company. The loans are unsecured; bear interest at the rate of 10% per annum and mature on June 2, 2010. In partial consideration for the loans, the Company agreed to issue to the lenders as a bonus, an aggregate of 400,000 common shares. For accounting purposes, the debt has a liability and equity component, which are separately presented in the financial statements as short term debt and share capital. The face value of the debt has been allocated to the liability and equity components proportionately based on their respective fair values. The fair value of the equity component was determined using the TSX venture exchange approved method as outlined in TSX Corporate Finance Manual. The proceeds of \$400,000 have been allocated \$320,000 to loans payable and \$80,000 to share capital. The company recorded \$13,222 in interest expense and \$52,308 in accretion expense as at April 1, 2010.

### 7. LONG TERM DEBT

	June 30, 2011	March 31, 2011
Leasehold improvement loan payable in monthly installments of \$283 including interest at 8.00%, unsecured, due May 2012,	\$ 2,998	\$ 3,779
Less current portion	(2,998)	(3,218)
Promissory note payable in monthly installments of \$123,776 including interest at 7%, secured by a general and specific security agreement, commencing April 2013, due March 2016	3,563,098	3,502,013
Convertible Debt payable in monthly installments of \$ 70,729 including interest at 7%, secured by a general and specific security agreement, commencing April 2013, due March 2016	2,036,055	2,001,152
Total	\$5,599,151	\$5,503,726

Principal payments on long-term debt in each of the next five fiscal years are estimated as follows:

2012-2013	2,998
2013-2014	1,156,586
2014-2015	2,095,967
2015-2016	2,247,447

The amount due to Nozala Investments of \$950,066, Interest at 12%, unsecured, currently has no set terms of repayment and is not expected to be repaid in the current year. The loan amount received is principally being used for the ongoing operations of DMI Minerals South Africa (Pty) Ltd, including the purchase of certain mineral rights and assets from De Beers Consolidated Mines Limited

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### 8. ASSET RETIREMENT OBLIGATION

The total asset retirement obligation was based on the Company's estimated costs to reclaim and abandon the mines and facilities. The Company has estimated the costs related to the asset retirement obligations based on the South African Department of Mineral Reserves estimate of required rehabilitation costs, adjusted for inflation. This book value of the obligation at June 30, 2011 is \$449,403 (2011 - \$446,058) adjusted annually using an inflation rate of three percent. Upon the completion of the sale of So Ver Mine (Pty) Ltd the Asset Retirement Obligation of \$328,598 (2011 - \$326,152) will be eliminated.

An amount equivalent to \$38,377 (\$38,619 at March 31 2011) has been deposited with the Department of Mineral Resources in South Africa in respect of rehabilitation costs.

### 9. SHARE CAPITAL

	Number of Shares	Amount
Authorized:		
Unlimited common voting shares, no par value		
Issued:		
Balance, April 1, 2010	20,113,128	\$ 8,738,841
Issued during fiscal 2011:		
Private placement, gross proceeds(a)	5,505,155	1,651,547
Warrants on private placement	-	(743,196)
Broker warrants	-	(73,992)
Share issuance costs	-	(127,575)
Exercise of options (b)	25,000	15,500
Balance, March 31, 2011	25,643,283	\$ 9,461,125
Issued during fiscal 2012:		
Exercise of warrants (c)	124,737	87,316
Exercise of options (d)	66,667	41,333
Cancellation of escrow shares	(1,667)	-
Balance, June 30, 2011	25,833,020	\$ 9,589,774

The weighted average number of shares outstanding for the period was 25,781,801 (25,117,255 in fiscal year 2011).

- (a) On May 4, 2010, the Company completed a non-brokered private placement financing of \$1,651,547 (gross proceeds less share issuance costs of \$127,575 resulting in net cash proceeds of \$1,523,972.) The private placement consisted of the sale of 5,505,155 units at a price of \$0.30 per unit. Each unit consisted of one common share and one half of one common share purchase warrant. Each full warrant will entitle the holder thereof to acquire one additional common share at an exercise price of \$0.50 for a period of two years following the closing date. In addition 369,962 warrants granted to brokers will entitle the holder thereof to acquire one additional common share at an exercise price of \$0.50 for a period of one year following the closing date. The warrant valuation of \$817,188 includes a value of \$73,992 for the broker warrants which was charged to share issuance costs. The warrant valuation was calculated using the Black-Scholes pricing model with the following assumptions: zero dividend yield, expected volatility 192% and risk free rate of 1.02%

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

(b) 25,000 options exercised at a price of \$0.30

(c) 124,737 warrants exercised at a price of \$0.50

(d) 66,667 options exercised at a price of \$0.30

### Warrants

The following table summarizes the activity with respect to warrants granted and exercised during the year.

	June 30, 2011		March 31, 2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	6,709,404	\$ 0.50	6,182,395	\$0.50
Warrants Granted	-	-	3,122,540	0.50
Warrants Expired	(245,225)	0.50	(2,595,531)	0.50
Warrants Exercised	(124,737)	0.50	-	-
Outstanding, end of period	6,339,442	\$ 0.50	6,709,404	\$ 0.50
Exercisable, end of period	6,339,442	\$ 0.50	6,709,404	\$ 0.50

The following warrants were outstanding at June 30, 2011:

3,586,870	\$0.50	March 3, 2012
2,752,572	\$0.50	May 4, 2012

	June 30, 2011	March 31, 2011
Balance, beginning of year	\$ 1,806,910	\$ 1,530,867
Exercise of warrants	(24,947)	-
Issuance of warrants	-	743,196
Expiry of warrants	(49,045)	(541,145)
Broker warrants	-	73,992
Balance, end of period	\$ 1,732,918	\$ 1,806,910

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### Stock options

The Company adopted a formal stock option plan in November 20, 2009 and follows the TSX Venture Exchange (the "Exchange") policy under which it is authorized to grant options to directors, employees and consultants to acquire up to 20% of its issued and outstanding common stock. Under the policy, the exercise price of each option equals the market price of the Company's stock, less applicable discounts permitted by the Exchange, as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

The following table summarizes the activity with respect to options granted and exercised during the year.

	June 30 2011		March 31 2011	
	Number of options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,642,500	\$ 0.56	767,500	\$0.56
Options Expired	(90,000)	1.20	-	-
Options issued	1,200,000	0.38	2,900,000	0.30
Options exercised	(66,667)	0.30	(25,000)	0.30
Outstanding, end of period	4,685,833	\$ 0.35	3,642,500	\$ 0.36
Exercisable, end of period	4,685,833	\$ 0.35	3,642,500	\$ 0.36

The following stock options were outstanding at June 30, 2011:

Number of options outstanding and exercisable	Exercise Price	Weighted average remaining life	Expiry date
115,000	\$ 0.36	1.00	March 1, 2012
182,500	\$ 0.50	1.50	September 17, 2012
380,000	\$ 0.50	2.00	March 17, 2013
2,808,333	\$0.30	4.25	June 2, 2015
1,200,000	\$0.38	5.00	April 8, 2016

### Stock-based compensation

The Company has recognized \$540,000 in stock based compensation for the period ended June 30, 2011 (928,000 in fiscal year 2011).

There were 1,200,000 stock options issued in the period ended June 30, 2011. The option valuation was calculated using the Black-Scholes pricing model with the following assumptions: zero dividend yield, expected volatility 119% and risk free rate of 1.43%. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimated, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### 10 .CONTRIBUTED SURPLUS

	\$
<b>Balance, April 1, 2010</b>	<b>2,004,474</b>
Expiry of warrants	541,145
Exercise of options	(8,000)
Issuance of options	928,000
<b>Balance, March 31, 2011</b>	<b>3,465,619</b>
Expiry of warrants	49,045
Exercise of options	(21,333)
Issuance of options	540,000
<b>Balance June 30, 2011</b>	<b>4,033,331</b>

### 11. RELATED PARTY TRANSACTIONS

The Company paid or accrued the following to directors, and to companies controlled by directors of the Company:

	June 30, 2011	March 31, 2011	April 1, 2010
Salaries and consulting	\$ 100,250	\$ 457,656	369,563
Directors fees	12,000	60,000	72,000
Performance bonuses	30,000	460,000	132,000
Interest on short term loans	-	350	4,261

These transactions were in the normal course of operations and were measured at the exchange amounts, which is the amount of consideration established and agreed to by the related parties. As at June 30, 2011, the Company owed \$2,754 (\$301,046 at March 31 2011) to directors of the Company and its subsidiaries, companies controlled by a director, an individual related to a director and to former directors. The fair value of amounts due to or from related parties cannot be determined as there are no specific terms of repayment and no interest is charged.

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### 12. SEGMENTED INFORMATION

The Company's primary business is the exploration and development of diamond properties in Africa so there is only one reportable operating segment.

Details of identifiable assets by geographic segments are as follows:

	Total Assets	Property, Plant and Equipment	Mineral Properties	Cash and Equivalents	Other Assets
<b>June 30, 2011</b>					
Canada	\$ 4,831,024	\$ 22,261	-	\$ 4,688,854	\$ 119,909
South Africa	3,109,935	91,136	2,311,893	331,952	374,954
	\$ 7,940,959	\$ 113,397	2,311,893	\$ 5,020,806	\$ 494,863
<b>March 31, 2011</b>					
Canada	\$ 5,227,530	\$ 25,346	-	\$ 5,122,675	\$ 79,509
South Africa	3,111,065	96,148	2,186,811	470,005	358,101
	\$ 8,338,595	\$ 121,494	2,186,811	\$ 5,592,680	\$ 437,610
<b>April 1, 2010</b>					
Canada	1,952,122	38,121	-	1,707,027	206,974
South Africa	538,126	101,363	-	187,292	249,471
	2,490,248	139,484	-	1,894,319	456,445

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

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### 13. FINANCIAL INSTRUMENTS

#### Fair values

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument

- Level 1 – inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – inputs to the valuation methodology are not based on observable market data.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and amounts due to related parties short term debt and long-term debt. The fair value of these financial instruments approximates their carrying values due to the short term maturities of these items, except for the amounts due to related parties which are disclosed in Note 11. The Company's cash has been assessed on the fair value hierarchy described above; cash is classified as Level 1.

#### Financial risks

The Company's activities result in exposure to a variety of financial risks, including risks related to credit, market risk (currency fluctuation and interest rates) and liquidity risk.

##### a) Credit risk

The Company is exposed to credit risk only with respect to uncertainties as to timing and collectability of receivables. The Company mitigates credit risk through standard credit and reference checks. There are no material financial assets that the Corporation considers past due. The company currently holds the majority of its cash holdings in large financial institutions in Canada and South Africa and does not expect any significant risk associated with those deposits. The majority of the Company's receivables are sales taxes refundable due from the government of South Africa and Canada, the Company does not foresee any significant risk in the collection.

##### b) Interest rate

The Company is not exposed to any material interest rate risk as the Company's short and long term debt has a fixed rate of interest, except for the Nozala investments loan which has a variable rate of interest of South African prime plus three percent. A 1% change in the South African Prime Rate would result in interest expense changing by approximately \$2,400

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

### c) Foreign Current risk

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company's subsidiaries in South Africa operate using principally the US Dollar and the South African Rand and as such may be negatively affected by fluctuations in foreign exchange rates when translating from the currency of measurement of the Company's subsidiary to the Company's reporting currency. The Company's monetary assets and liabilities denominated in South African Rand include cash at bank in the amount of \$331,952 (\$470,004 March 31, 2011), accounts receivable in the amount of \$336,574 (\$319,484 March 31, 2011), the rehabilitation trust fund in the amount of \$38,377 (\$38,619 March 31, 2011), accounts payable in the amount of \$138,836 (\$19,109 March 31, 2011), long term debt \$963,357 (\$950,066 March 31, 2011) accrued and taxes payable in the amount of \$7,551 (\$303 March 31, 2011). A one percent change in the Southern African Rand would result in Net Income (Loss) changing by approximately \$9,000.

### d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they fall due. The Company manages this risk through management of its cash flow from operations and its capital structure. Based on senior management's and the Board of Directors' review of ongoing operations, the Company may revise timing of capital expenditures, bank loans, including project specific loans, or issue equity or a combination thereof.

The Company's current financial liabilities of \$897,305 are payable within one year. The Company enters into contractual obligations in the normal course of business operations. Management believes the Company's requirements for capital expenditures, working capital and ongoing commitments (including long-term debt and lease obligations) can be financed from existing cash, cash flow provided by operating activities, existing bank loans and by acquiring new project loans.

## 14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) to maintain a strong capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company from time-to-time may adjust capital spending, issue new common shares, issue new debt or repay existing debt. The Company's capital is not subject to any restrictions.

The Company manages the following as capital:

	June 30, 2011	March 31, 2011	April 1, 2010
Working capital	\$ 4,577,987	\$ 5,049,901	745,442
Long-term debt	6,562,508	6,453,792	98,750
Shareholders' equity	358,643	821,418	1,029,526

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

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### **15. COMMITMENTS**

The Company has a commitment to lease office space at a rate of \$2,827 per month. The lease expires in May, 2012. The minimum lease payments under this lease are \$33,930 per year.

### **16. SALE OF PROPERTY**

During fiscal 2010 the Company entered into agreements to sell its 15% stake in So Ver Mine (Pty) Ltd for Rand 600,000 (approximately \$88,000). As of the balance sheet date this amount has not been received and is included in accounts receivable.

In addition the Company entered in an agreement to sell its remaining 85% share of So Ver Mine (Pty) Ltd for Rand 956,250 (approximately \$140,000). In addition, the purchasers have agreed to repay to the Company certain taxes paid by So Ver Mine (Pty) Ltd approximating \$21,000.

Due to certain covenants of the sales not being met at the balance sheet date, \$222,077 has been recorded as deferred income.

### **17. SUBSEQUENT EVENTS**

On August 4, 2011 75,000 options were exercised at \$0.36

On September, 2011 10,000 options were exercised at \$0.30

On September 13, 2011 150,000 options were exercised at \$0.30

### **18. TRANSITION TO IFRS**

As disclosed in Note 3, these are the Company's first consolidated financial statements prepared in accordance with IFRS for the period ended June 30, 2011 in conjunction with the Company's annual audited consolidated financial Statements to be issued under IFRS as at and for the year ending March 31, 2012. As a result, these Interim Consolidated Financial Statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with IAS 34, "Interim Financial Reporting", as issued by the IASB. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP. IFRS requires the presentation of comparative information as at the April 1, 2010 conversion date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the conversion, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of IFRS's.

In preparing its opening IFRS Financial Position, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP. IFRS accounting policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon conversion to IFRS for first-time adopters.

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following notes below and the tables that follow.

#### ***Initial elections upon adoption***

Set forth below are the IFRS 1 applicable exemptions and elections applied in the Company's conversion from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS.

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

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### *(i) IFRS Optional Exemptions from other IFRSs*

#### **Share-based payments**

IFRS 2, *Share-based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company has taken the exemption provided under IFRS 1 and is not applying IFRS 2 to any options fully vested at the Transition Date.

#### **Decommission and restoration liability exemption**

The Company has included on its balance sheet a decommissioning and restoration liability. Under IFRS 1, a first-time adopter need not comply with specific requirements for changes in liabilities that occurred before the date of transition to IFRS as identified under IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The Company has taken the exemption, and as a result, it has measured the liability as at the date of transition to IFRSs in accordance with IAS 37.

#### **Property and Equipment**

The Company will apply IAS 16 to all fixed asset with retrospective application, and will carry all fixed assets at historic cost. The Company has elected not to take the exemption of using fair value as the deemed cost at the Transition Date.

#### **Borrowing Costs**

The Company has elected to take an election to apply a transitional provision available for borrowing costs and therefore IAS 23, *Borrowing Costs* will be applied from April 1, 2010.

#### **Foreign Exchange**

This standard has not been applied retroactively with regards to calculating the foreign currency cumulative translation revenue. The foreign currency cumulative translation revenue has been set to zero on the transaction date and therefore a gain or loss on subsequent disposal of a foreign operation will only include foreign exchange differences that arose subsequent to the transaction date.

### *(ii) IFRS Mandatory Exemptions*

#### **Non-Controlling Interest**

IFRS requires prospective application from the date of transition to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

#### **Estimates**

Hindsight cannot be used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS.

## Reconciliation of the consolidated statement of financial position as at April 1, 2010

	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 1,894,319	\$ -	\$ 1,894,319
Accounts receivable	211,447	-	211,447
	2,105,766		2,105,766
<b>NON CURRENT</b>			
REHABILITATION TRUST FUND	37,248	-	37,248
DEPOSITS	207,750	-	207,750
MINERAL PROPERTIES	-	-	-
PROPERTY, PLANT AND EQUIPMENT (Note a)	68,957	70,527	139,484
<b>Total Assets</b>	<b>\$ 2,419,721</b>	<b>\$ 70,527</b>	<b>\$ 2,490,248</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable	\$ 204,983	\$ -	\$ 204,983
Asset retirement obligation	316,651	-	316,651
Current portion of long term debt	2,975	-	2,975
Deferred income	242,988	-	242,988
Share capital purchase deposits	188,967	-	188,967
short term debt	385,530	-	385,530
Taxes payable	18,230	-	18,230
	1,360,324		1,360,324
<b>NON CURRENT</b>			
LONG TERM DEBT	3,779	-	3,779
FUTURE TAXES (Note a)	-	1,648	1,648
ASSET RETIREMENT OBLIGATION	-	-	-
DUE TO NOZALA INVESTMENTS	94,971	-	94,971
	1,459,074	1,648	1,460,722
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	8,738,841	-	8,738,841
Contributed surplus	2,004,473	-	2,004,473
Convertible debt	-	-	-
Warrants	1,530,867	-	1,530,867
Accumulated other comprehensive income	-	-	-
Deficit (Note a)	(11,313,534)	68,879	(11,244,655)
Non-controlling interests	-		-
	960,647	68,879	1,029,526
<b>Total Liabilities and Equity</b>	<b>\$ 2,419,721</b>	<b>\$ 70,527</b>	<b>\$ 2,490,248</b>

## Reconciliation of the consolidated statement of financial position as at June 30 2010

	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 2,522,906	\$ -	\$ 2,522,906
Accounts receivable	97,514	-	97,514
	2,620,420		2,620,420
<b>NON CURRENT</b>			
REHABILITATION TRUST FUND	37,382	-	37,382
DEPOSITS	208,500	-	208,500
MINERAL PROPERTIES	-	-	-
PROPERTY, PLANT AND EQUIPMENT (Note b)	63,481	70,847	134,328
<b>Total Assets</b>	<b>\$ 2,929,783</b>	<b>\$ 70,847</b>	<b>\$ 3,000,630</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable	\$ 190,249	\$ -	\$ 190,249
Asset retirement obligation	319,027	-	319,027
Current portion of long term debt	3,034	-	3,034
Deferred income	236,178	-	236,178
Share capital purchase deposits	-	-	-
short term debt	-	-	-
Taxes payable	-	-	-
	748,488	-	748,488
<b>NON CURRENT</b>			
LONG TERM DEBT	2,998	-	2,998
FUTURE TAXES (Note b)	-	1,654	1,654
ASSET RETIREMENT OBLIGATION	-	-	-
DUE TO NOZALA INVESTMENTS	95,314	-	95,314
	846,800	1,654	848,454
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	9,445,625	-	9,445,625
Contributed surplus	2,700,474	-	2,700,474
Convertible debt	-	-	-
Warrants	2,348,055	-	2,348,055
Accumulated other comprehensive income (Note b)	-	(4,474)	(4,474)
Deficit (Note b)	(12,411,171)	78,277	(12,332,894)
Non-controlling interests (Note b)	-	(4,610)	(4,610)
	2,082,983	69,193	2,152,176
<b>Total Liabilities and Equity</b>	<b>\$ 2,929,783</b>	<b>\$ 70,847</b>	<b>\$ 3,000,630</b>

## Reconciliation of the consolidated statement of financial position as at March 31 2011

	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	\$ 5,592,680	\$ -	\$ 5,592,680
Accounts receivable	398,991	-	398,991
	5,991,671		5,991,671
<b>NON CURRENT</b>			
REHABILITATION TRUST FUND	38,619	-	38,619
DEPOSITS	-	-	-
MINERAL PROPERTIES	2,186,811	-	2,186,811
PROPERTY, PLANT AND EQUIPMENT (Note c)	46,948	74,546	121,494
<b>Total Assets</b>	<b>\$ 8,264,049</b>	<b>\$ 74,546</b>	<b>\$ 8,338,595</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable	\$ 388,619	\$ -	\$ 388,619
Asset retirement obligation	326,152	-	326,152
Current portion of long term debt	3,218	-	3,218
Deferred income	223,478	-	223,478
Share capital purchase deposits	-	-	-
short term debt	-	-	-
Taxes payable	303	-	303
	941,770		941,770
<b>NON CURRENT</b>			
LONG TERM DEBT (Note c)	4,352,877	1,150,849	5,503,726
FUTURE TAXES (Note c)	-	1,709	1,709
ASSET RETIREMENT OBLIGATION	119,906	-	119,906
DUE TO NOZALA INVESTMENTS	950,066	-	950,066
	6,364,619	1,152,558	7,517,177
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	9,461,125	-	9,461,125
Contributed surplus	3,465,619	-	3,465,619
Convertible debt (Note c)	1,160,373	(1,160,373)	-
Warrants	1,806,910	-	1,806,910
Accumulated other comprehensive income (Note c)	-	(49,989)	(49,989)
Deficit (Note c)	(13,994,597)	262,401	(13,732,196)
Non-controlling interests (Note c)	-	(130,051)	(130,051)
	1,899,430	(1,078,012)	821,418
<b>Total Liabilities and Equity</b>	<b>\$ 8,264,049</b>	<b>\$ 74,546</b>	<b>\$ 8,338,595</b>

**Reconciliation of consolidated statement of comprehensive loss for the period ended  
June 30, 2010**

	Canadian GAAP	IFRS Adjustments	June 30, 2010
<b>SALES</b>	\$ -	\$ -	\$ -
<b>COST OF SALES</b>	-	-	-
<b>GROSS LOSS</b>	-		-
<b>EXPENSES</b>			
Accretion and amortization	7,849	-	7,849
Consulting fees	61,300	-	61,300
Insurance	5,352	-	5,352
Interest and bank charges	43,985	-	43,985
Office	24,938	-	24,938
Professional fees	36,475	-	36,475
Promotion and investor relations	55,366	-	55,366
Salaries and wages	120,237	-	120,237
Stock based compensation	696,000	-	696,000
Transfer agent and regulatory fees	18,522	-	18,522
Travel	26,268	-	26,268
	1,096,292	-	1,096,292
<b>LOSS FROM OPERATIONS</b>	\$ (1,096,292)	\$ -	\$ (1,096,292)
<b>OTHER INCOME AND EXPENSES</b>			
Interest and other Income	627	-	627
Gain on sale of assets	-	-	-
Gain on sale of scrap	-	-	-
Foreign exchange (loss) gain (note a)	(1,971)	4,788	2,817
	(1,344)	4,788	3,444
<b>LOSS BEFORE INCOME TAX</b>	(1,097,636)	4,788	(1,092,848)
Current income taxes	-	-	-
<b>NET LOSS FOR THE PERIOD</b>	\$ (1,097,636)	\$ 4,788	\$ (1,092,848)
<b>Total comprehensive loss attributable to:</b>			
Non-controlling interests (note a)	\$ -	\$ (4,610)	\$ (4,610)
Equity holders of parent	(1,097,636)	-	(1,088,238)
	\$ (1,097,636)	\$ (4,610)	\$ (1,092,848)
<b>Other comprehensive Income</b>			
Foreign currency translation gain (loss) (note b)	\$ -	\$ (4,474)	\$ (4,474)
<b>Total comprehensive loss for the period</b>	\$ (1,097,636)	\$ (4,474)	\$ (1,092,712)

**Reconciliation of consolidated statement of comprehensive loss for the period ended  
March 31, 2011**

	For The Year Ended March 31, 2011	IFRS Adjustments	March 31, 2011
<b>SALES</b>	\$ -	\$ -	\$ -
<b>COST OF SALES</b>	-	-	-
<b>GROSS LOSS</b>	-	-	-
<b>EXPENSES</b>			
Accretion and amortization	149,577	-	149,577
Consulting fees	395,031	-	395,031
Insurance	17,916	-	17,916
Interest and bank charges	103,827	(9,524)	94,303
Office	84,327	-	84,327
Professional fees	180,478	-	180,478
Promotion and investor relations	88,126	-	88,126
Salaries and wages	723,367	-	723,367
Stock based compensation	928,000	-	928,000
Transfer agent and regulatory fees	46,703	-	46,703
Travel	89,891	-	89,891
	2,807,243	(9,524)	2,797,719
<b>LOSS FROM OPERATIONS</b>	\$ (2,807,243)	\$ 9,524	\$ (2,797,719)
<b>OTHER INCOME AND EXPENSES</b>			
Interest and other Income	54,451	-	54,451
Gain on sale of assets	-	-	-
Gain on sale of scrap	919	-	919
Foreign exchange (loss) gain (note a)	71,108	53,947	125,055
	126,478	53,947	180,425
<b>LOSS BEFORE INCOME TAX</b>	(2,680,765)	63,471	(2,617,294)
Current income taxes	298	-	298
<b>NET LOSS FOR THE PERIOD</b>	\$ (2,681,063)	\$ 63,471	\$ (2,617,592)
<b>Total comprehensive loss attributable to:</b>			
Non-controlling interests (note a)	\$ -	\$ (130,051)	\$ (130,051)
Equity holders of parent	(2,681,063)	-	(2,487,541)
	\$ (2,681,063)	\$ (130,051)	\$ (2,617,592)
<b>Other comprehensive Income</b>			
Foreign currency translation gain (loss) (note c)	\$ -	\$ (49,989)	\$ (49,989)
<b>Total comprehensive loss for the period</b>	\$ (2,681,063)	\$ (49,989)	\$ (2,537,530)

# Diamcor Mining Inc.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

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### *(iii) Transition to IFRS*

The following discussions explain the significant differences between Diamcor Mining Inc.'s Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied, except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The descriptive note captions below correspond to the adjustments presented in the preceding reconciliations.

- a. April 1, 2010 - As a result of the transition to IFRS the company made the following adjustments: property, plant and equipment (PPE) increased by \$70,527, deferred tax increased by \$1,648, Deficit decreased by \$68,879. The changes are primarily a result of differing foreign currency translation methods under IFRS and the elimination of Canadian GAAP adjusting entries related to the value of property in the Sover subsidiary, which had adopted IFRS in previous years.
- b. June 30, 2010 - As a result of the transition to IFRS the company made the following adjustments: property, plant and equipment (PPE) increased by \$70,847, deferred tax increased by \$1,654, Accumulated other comprehensive income decreased by \$4,474, non-controlling interest decreased by \$4,610, net loss decreased by \$4,788 and deficit decreased by \$78,277. The changes are primarily a result of differing foreign currency translation methods under IFRS and the elimination of Canadian GAAP adjusting entries related to the value of property in the Sover subsidiary, which had adopted IFRS in previous years, and recognition of non-controlling interest.
- c. March 31, 2011 - As a result of the transition to IFRS the company made the following adjustments: property, plant and equipment (PPE) increased by \$74,546, deferred tax increased by \$1,709, Net loss decrease by \$63,471, loans increased by 1,150,849 and convertible debt decreased by 1,160,373, Accumulated other comprehensive income decreased by \$49,989, non-controlling interests decreased by \$130,051 and deficit decreased by \$262,401. The changes are primarily a result of differing foreign currency translation methods under IFRS and the elimination of Canadian GAAP adjusting entries related to the value of property in the Sover subsidiary, which had adopted IFRS in previous years, revaluation of convertible loans under IFRS, and recognition on non-controlling interests.

### **Restatement of the consolidated statement of cash flows for the periods ended**

#### **June 30, 2010 and March 31, 2011**

The restatement from Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Company. The reconciling items between Canadian GAAP presentation and IFRS have no effect on the cash flows generated.