



## **Condensed Consolidated Financial Statements**

**For the Interim Period Ended  
December 31, 2013**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Diamcor Mining Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**DIAMCOR MINING INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at December 31, 2013 and March 31, 2013**

	December 31 2013	March 31 2013 (audited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 747,714	\$ 793,622
Inventory (Note 2)	354,336	87,792
Prepays	60,418	11,140
Accounts receivable	76,143	234,520
Assets held for sale (Note 15)	50,144	54,797
	1,288,755	1,181,871
<b>NON CURRENT</b>		
REHABILITATION TRUST FUND (Note 5)	27,243	29,771
PROPERTY, PLANT AND EQUIPMENT (Note 3)	3,339,667	3,650,094
EXPLORATION AND EVALUATION ASSETS (Note 4)	2,260,133	2,396,692
<b>Total assets</b>	<b>\$ 6,915,798</b>	<b>\$ 7,258,428</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable	\$ 298,151	\$ 462,825
Asset retirement obligation (Note 7)	355,695	347,868
Current portion of long term debt (Note 6)	1,317,048	3,036,421
Deferred income (Note 15)	157,648	172,277
	2,128,542	4,019,391
<b>NON CURRENT</b>		
LONG TERM DEBT (Note 6)	6,173,377	7,398,254
DEFERRED TAXES	-	103,072
DECOMMISSIONING LIABILITY (Note 7)	128,176	125,355
DUE TO NOZALA INVESTMENTS (Note 6)	923,395	926,062
	9,353,490	12,572,134
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital (Note 8)	16,672,272	13,229,975
Contributed surplus (Note 9)	6,798,694	4,460,494
Warrants (Note 8)	849,720	-
Accumulated other comprehensive income	(2,122,855)	(1,241,745)
Deficit	(22,952,557)	(20,256,481)
	(754,726)	(3,807,757)
Non-controlling interests	(1,682,966)	(1,505,949)
<b>Total equity</b>	<b>(2,437,692)</b>	<b>(5,313,706)</b>
<b>Total liabilities and equity</b>	<b>\$ 6,915,798</b>	<b>\$ 7,258,428</b>
<b>COMMITMENTS (Note 14)</b>		
<b>SUBSEQUENT EVENTS (Note 16)</b>		
On behalf of the board		
<u>"Dean Taylor"</u>	Director	
<u>"Sheldon Nelson"</u>	Director	

**DIAMCOR MINING INC.**  
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

	For the three months ended December 31, 2013	For the three months ended December 31, 2012	For the Nine months ended December 31, 2013	For the Nine months ended December 31, 2012
<b>SALES</b>	\$ 1,396,591	\$ 539,980	\$ 2,831,104	\$ 539,980
<b>OPERATING EXPENSES</b>	573,720	843,056	1,557,899	1,679,845
<b>NET INCOME (LOSS) FROM OPERATING ACTIVITIES</b>	822,871	(303,076)	1,273,205	(1,139,865)
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Accretion and depreciation	179,418	94,767	503,239	232,307
Consulting fees	49,842	36,815	134,202	107,660
Insurance	14,640	12,038	44,300	32,363
Interest and bank charges	181,413	173,400	549,060	460,251
Office	101,699	28,879	168,786	84,910
Professional fees	1,236	38,792	71,493	133,567
Promotion and investor relations	51,993	26,768	166,148	90,006
Salaries and wages	182,535	143,646	501,213	435,649
Stock based compensation	-	-	2,359,000	-
Transfer agent and regulatory fees	5,967	16,002	38,074	30,833
Travel	30,829	29,119	90,970	87,626
	799,572	600,226	4,626,485	1,695,172
<b>INCOME (LOSS) FROM OPERATIONS</b>	\$ 23,299	\$ (903,302)	\$ (3,353,280)	\$ (2,835,037)
<b>OTHER INCOME AND EXPENSES</b>				
Interest and other Income	384	2,301	3,635	16,330
Loss on disposal of assets	(13)	-	(13)	-
Foreign exchange	296	(61)	(301)	(867)
	667	2,240	3,321	15,463
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	23,966	(901,062)	(3,349,959)	(2,819,574)
Deferred taxes	(97,951)	-	(97,951)	-
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	\$ 121,917	\$ (901,062)	\$ (3,252,008)	\$ (2,819,574)
<b>OTHER COMPREHENSIVE INCOME</b>				
Foreign currency translation (loss)	\$ (78,757)	\$ 42,905	\$ (502,195)	\$ (332,687)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	\$ 43,160	\$ (858,157)	\$ (3,754,203)	\$ (3,152,261)
<b>Total net income (loss) attributable to:</b>				
Non-controlling interests	\$ (108,274)	\$ (364,634)	\$ (555,932)	\$ (1,914,431)
Equity holders of parent	230,191	(536,428)	(2,696,076)	(905,143)
	\$ 121,917	\$ (901,062)	\$ (3,252,008)	\$ (2,819,574)
<b>Total comprehensive income (loss) attributable to:</b>				
Non-controlling interests	\$ 22,886	\$ (347,955)	\$ (177,015)	\$ (789,511)
Equity holders of parent	\$ 20,274	\$ (510,202)	\$ (3,577,188)	\$ (2,362,750)
	\$ 43,160	\$ (858,157)	\$ (3,754,203)	\$ (3,152,261)
<b>Income (loss) per share - basic and diluted (Note 8)</b>	\$ 0.01	\$ (0.02)	\$ (0.08)	\$ (0.06)

**DIAMCOR MINING INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the three months ended December 31, 2013	For the three months ended December 31, 2012	For the Nine months ended December 31, 2013	For the Nine months ended December 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Income (loss)	\$ 121,917	\$ (901,062)	\$ (3,252,008)	\$ (2,819,574)
<b>Items not affecting cash</b>				
Accretion and depreciation (Note 3 & 7)	179,418	94,767	503,239	232,307
Stock based compensation (Note 8)	-	-	2,359,000	-
Foreign Exchange	(36,969)	115,048	17,686	15,999
Interest on long term debt	179,804	171,542	544,550	454,922
	322,253	381,357	3,424,475	703,228
	444,170	(519,705)	172,467	(2,116,346)
<b>Changes in non-cash working capital</b>				
Accounts payable	(76,371)	(210,927)	(164,674)	(499,603)
Accounts receivable	(6,576)	(168,852)	158,377	362,161
Inventory	70,481	172,206	(266,544)	(81,392)
Taxes	(103,072)	-	(103,072)	-
Prepays	(18,994)	60,476	(49,278)	(10,055)
	(134,532)	(147,097)	(425,191)	(228,889)
Cash flow used by operating activities	309,638	(666,802)	(252,724)	(2,345,235)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment and construction of mines (Note 3 & 4)	(150,525)	(1,968,583)	(539,723)	(2,656,481)
Cash flow used from investing activities	(150,525)	(1,968,583)	(539,723)	(2,656,481)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of long term debt	(371,329)	4,000,000	(1,113,987)	4,000,000
Repayment of short term debt	-	-	-	(561)
Proceeds from issuance of share capital (Note 8)	12,000	42,200	1,975,297	1,291,400
Cash flow from financing activities	(359,329)	4,042,200	861,310	5,290,839
<b>Effect of change in exchange rate for cash</b>	(1,173)	(46,433)	(114,771)	(80,235)
<b>Increase (Decrease) in cash and cash equivalents</b>	(201,389)	1,360,382	(45,908)	208,888
Cash and cash equivalents - beginning of period	949,103	595,819	793,622	1,747,313
Cash and cash equivalents - end of period	\$ 747,714	\$ 1,956,201	\$ 747,714	\$ 1,956,201

**DIAMCOR MINING INC.**  
**STATEMENT OF CHANGES IN EQUITY**

	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive Income	Non-controlling interests	Total Shareholders' Equity
Balance - March 31, 2012	10,853,483	4,698,952	663,134	(17,187,032)	(384,631)	(488,495)	(1,844,589)
Issued during fiscal 2012							
Exercise of warrants (Note 8)	1,810,192	-	(634,742)	-	-	-	1,175,450
Expiry of warrants (Note 8)	-	28,392	(28,392)	-	-	-	-
Exercise of options (Note 8)	566,300	(266,850)	-	-	-	-	299,450
Net loss for the year	-	-	-	(3,069,449)	-	(1,236,385)	(4,305,834)
Other Comprehensive Income	-	-	-	-	(857,114)	218,931	(638,183)
Balance - March 31, 2013	13,229,975	4,460,494	-	(20,256,481)	(1,241,745)	(1,505,949)	(5,313,706)
Issued during fiscal 2014							
Conversion of debt	2,295,919	-	-	-	-	-	2,295,919
Private placement	1,984,730	-	-	-	-	-	1,984,730
Share issuance costs	(28,932)	-	-	-	-	-	(28,932)
Issuance of options (Note 8)	-	2,359,000	-	-	-	-	2,359,000
Exercise of options (Note 8)	40,300	(20,800)	-	-	-	-	19,500
Issuance of warrants (Note 8)	(849,720)	-	849,720	-	-	-	-
Net loss for the year	-	-	-	(2,696,076)	-	(555,932)	(3,252,008)
Other Comprehensive Income	-	-	-	-	(881,110)	378,915	(502,195)
Balance - December 31 2013	16,672,272	6,798,694	849,720	(22,952,557)	(2,122,855)	(1,682,966)	(2,437,692)
Balance - December 31 2012	12,903,824	4,603,144	-	(19,101,463)	(679,960)	(1,430,996)	(3,705,451)

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

---

### 1. NATURE OF OPERATIONS

Diamcor Mining Inc. (the “Company” or the “Group”) was incorporated under the Company Act of British Columbia, now the Business Corporations Act (British Columbia). Its principal business activity is the identification, acquisition, exploration, evaluation, operation, and advancement of unique diamond based resource properties with a specific focus on the mining segment of the diamond industry through its subsidiaries So Ver Mine (Pty) Ltd. (“So Ver”), DMI Minerals South Africa (Pty) Ltd., and DMI Diamonds South Africa (Pty) Ltd. (formally Blue Dust 25 (Pty) Ltd).

These consolidated financial statements were authorized for issuance by the Board of Directors on February 21, 2014. The company’s address is 630, 1620 Dickson Avenue Kelowna, British Columbia V1Y 9Y2, Canada.

Management routinely plans future activities including forecasting future cash flows for its internal use. Management has reviewed their plan with the Directors and has collectively formed a judgment that the Company has adequate resources to continue as a going concern for the foreseeable future, which Management and the Directors have defined as being at least the next 12 months. In arriving at this judgment, Management has prepared the cash flow projections of the Company, which incorporates a detailed cash flow modeling through the current financial year. Directors have reviewed this information provided by Management and have considered the information in relation to the financing uncertainties in the current economic climate and the financial resources available to the Company. The expected cash flows have been modeled based on anticipated revenue streams with debt funding programmed into the model and reducing over time. Sensitivities have been applied to this model in relation to revenues not achieving anticipated levels. Key assumptions used in the future cash flow amounts are selling price and rough diamonds sold in the period and the assumption that the Company will move to full scale operations by obtaining its mining right from the South African Department of Mineral Resources.

The Directors have considered the: (i) base of investors and debt lenders historically available to the Company; (ii) global capital markets; (iii) sources of Company income; and (iv) cash generation and debt amortization levels. Considering the above, Management and Directors are satisfied that the Company has access to adequate resources to continue as a going concern for at least the next 12 months.

For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements.

### 2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

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.

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounts Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Diamcor Mining Inc. has followed the same accounting policies and methods of computation used in the Company’s annual audited financial statements for the year ended March 31, 2013. In addition, certain disclosures that are required to be included in annual financial statements are not included in these interim. Therefore, these interim financial statements should be read in conjunction with the aforementioned

#### 2.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2013. 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.

---

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

Details of the company's subsidiaries as at December 31, 2013 are as follows:

<b>Name</b>	<b>Place of Incorporation</b>	<b>Interest</b>	<b>Operations</b>
DMI Diamonds South Africa (Pty) Ltd.	South Africa	100%	Active
DMI Minerals South Africa (Pty) Ltd.	South Africa	70%	Active
So Ver Mine (Pty) Ltd.	South Africa	85%	Dormant

DMI Minerals South Africa (Pty) Ltd. is the only entity involved in the incidental recovery of rough diamonds as a result of ongoing operations. DMI Diamonds South Africa (Pty) Ltd. was incorporated for the purpose of leasing mining and production equipment to DMI Minerals South Africa (Pty) Ltd. So Ver Mine (Pty) Ltd. was sold during fiscal 2010 and is awaiting satisfaction of certain sale covenant requirements (see Note 15). Jagersfontein Diamond Mining Company (Pty) Ltd. was a wholly owned dormant subsidiary which was dissolved during the quarter ended December 31, 2013.

### 2.2 Significant accounting judgments, estimates and assumptions

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.

#### *Exploration and evaluation assets*

Certain direct costs related to the acquisition, advancement and exploration of the mining properties are capitalized until the technical feasibility and commercial viability of the property is determined. Viability of the project is determined using management's assessment of several factors including operational levels, mineral recovery levels, attainment of required mining permits, and other relevant factors. Until technical feasibility and commercial viability is achieved, the Company will continue to follow their significant accounting policy for exploration and evaluation assets. The timing of commercial viability also has an impact on the going concern assumption. Currently, the Company anticipates a final decision to a move to full scale mining and commercial levels of operations in 2014/15 once it receives its mining rights from the South African Department of Mineral Resources and after performing an economic assessment.

#### *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 has assigned inferred resources to the project 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 resources 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, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortization charges.

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

---

### ***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. As at December 31, 2013, there were no indicators of impairment based on the following factors:

- a. The prospecting rights are not expected to expire in the near term;
- b. The Company is continuing with further advancement and exploration of the property and acquiring further property, plant and equipment; and
- c. Current information suggests there are significant inferred resource that demonstrate the potential to deliver future economic benefits.

### ***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.

### ***Provisions***

In the determination of provisions, management is requirement to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, risk-free discount rates, and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligations and in return, net income and in the case of decommissioning liabilities, property, plant and equipment.

## **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***

Rough 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 the 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 incurred in converting materials into finished goods. At December 31, 2013, there was \$354,336 in rough diamond inventory.

### ***Exploration and evaluation assets***

Management has elected to capitalize to exploration and evaluation assets certain expenditures, namely professional fees, site sampling costs, mining rights, and inventory, until the commencement of commercial production. After commercial production starts, all assets included in exploration and evaluation assets will be transferred to property plant and equipment. Capitalized expenditures are not depreciated until the assets are ready for their intended use.

Upon completion of construction, mining assets are amortized on a unit of production basis will be measured by the portion of the mine's economically recoverable and proven reserves produced during the period. Impairment is tested in the same way as other non-financial assets. The recorded cost of mineral claims and exploration costs represents costs incurred and

---



# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

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 will be 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 comprise 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 will be 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 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
- Computers	15% declining balance
- Motor vehicles	15% declining balance
- Plant and 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

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

---

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.

### ***Decommissioning liability***

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. 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 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 other comprehensive income (loss).

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 other comprehensive income (loss). On disposal of part or all of the operations, the proportionate share of the related cumulative gains and losses previously recognized in other comprehensive income (loss) 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.

---

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

---

### **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. 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 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.

---

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

---

### ***Income taxes***

Income tax expense comprises current income tax and deferred 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 or 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 tax***

Deferred 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 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 tax asset is realized or the deferred tax liability is settled.

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

#### ***Deferred 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 net of any sales commission, 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.

### ***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.

---

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

---

### **Loss per share**

Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity holders after adjusting for non-controlling interests (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 for annual periods beginning on or after 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 believes that there will be no impact on the company's financial statements from the adoption of this standard.

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 believes that there will be no impact on the company's financial statements from the adoption 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 believes that there will be no impact on the company's financial statements from the adoption 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. The Company believes that there will be no impact on the company's financial statements from the adoption of this standard.

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* On October 20, 2011, the IASB issued a new interpretation, IFRIC 20, to address accounting issues regarding waste removal costs incurred in surface mining activities during the production phase of a mine, referred to as production stripping costs. The new interpretation addresses the classification and measurement of production stripping costs as either inventory or as a tangible or intangible non-current 'stripping activity asset'. The standard also provides guidance for the depreciation or amortization and impairment of such assets. IFRIC 20 is effective for reporting years beginning on or after January 1, 2013, although earlier application is permitted. The Company will assess the impact of the standard once technical feasibility and commercial viability has been established.

In May 2011, the IASB published amendments to IAS 28, *Investments in Associates and Joint Ventures*, which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Amendments to IAS 28 provide

---

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

---

additional guidance applicable to accounting for interests in joint ventures or associates when a portion of an interest is classified as held for sale or when the Company ceases to have joint control or significant influence over an associate or joint venture. When joint control or significant influence over an associate or joint venture ceases, the Company will no longer be required to re-measure the investment at that date. When a portion of an interest in a joint venture or associate is classified as held for sale, the portion not classified as held for sale shall be accounted for using the equity method of accounting until the sale is completed at which time the interest is reassessed for prospective accounting treatment. The Company believes that there will be no impact on the company's financial statements from the adoption of this standard.

In January 2008, the IASB amended IAS 27, *Separate Financial Statements*, which has subsequently been amended by IFRS 9 and other standards. IAS 27 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The Company believes that there will be no impact on the company's financial statements from the adoption of this standard.

Certain new standards, amendments and interpretations to existing IFRS standards have been issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after January 1, 2012. The standards impacted that are applicable to the Company are as follows:

In June 2011, the IASB issued IAS 1, *Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements*. The amendments stipulate the presentation of net earnings and OCI and also require the Company to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for the Company beginning on January 1, 2012 with retrospective application and early adoption permitted. The adoption of this amendment had no material impact on the Company's consolidated financial statements.

In December 2010, the IASB amended IAS 12, *Income Taxes* (effective January 1, 2012) to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The adoption of this amendment had no material impact on the Company's consolidated financial statements.

---

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

### 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, March 31, 2012</b>	<b>1,461,736</b>	<b>69,338</b>	<b>37,301</b>	<b>53,093</b>	<b>33,090</b>	<b>1,654,558</b>
Additions	2,758,698	49,809	11,654	7,389	-	2,827,550
Translation adjustments	(220,830)	(10,475)	(848)	(278)	-	(232,431)
<b>Balance, March 31, 2013</b>	<b>3,999,604</b>	<b>108,672</b>	<b>48,107</b>	<b>60,204</b>	<b>33,090</b>	<b>4,249,677</b>
Additions	458,341	13,169	-	1,259	-	472,769
Translation adjustments	(339,623)	(9,228)	(1,394)	(760)	-	(351,005)
<b>Balance, December 31, 2013</b>	<b>4,118,322</b>	<b>112,613</b>	<b>46,713</b>	<b>60,703</b>	<b>33,090</b>	<b>4,371,441</b>
<b>Accumulated Depreciation</b>						
<b>Balance, March 31, 2012</b>	<b>119,977</b>	<b>23,917</b>	<b>23,404</b>	<b>38,591</b>	<b>31,022</b>	<b>236,911</b>
Depreciation	375,564	25,985	4,939	6,529	2,068	415,085
Translation adjustments	(46,363)	(5,567)	(229)	(254)	-	(52,413)
<b>Balance, March 31, 2013</b>	<b>449,178</b>	<b>44,335</b>	<b>28,114</b>	<b>44,866</b>	<b>33,090</b>	<b>599,583</b>
Depreciation	466,671	18,794	2,532	4,594	-	492,591
Translation adjustments	(55,442)	(4,461)	(329)	(168)	-	(60,400)
<b>Balance, December 31, 2013</b>	<b>860,407</b>	<b>58,667</b>	<b>30,318</b>	<b>49,292</b>	<b>33,090</b>	<b>1,031,774</b>
<b>Net book value, March 31, 2013</b>	<b>3,550,426</b>	<b>64,337</b>	<b>19,993</b>	<b>15,338</b>	<b>-</b>	<b>3,650,094</b>
<b>Net book value, December 31, 2013</b>	<b>3,257,915</b>	<b>53,946</b>	<b>16,395</b>	<b>11,411</b>	<b>-</b>	<b>3,339,667</b>

### 4. EXPLORATION AND EVALUATION ASSETS

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.

<b>Cost</b>	<b>\$</b>
<b>Balance, March 31, 2012</b>	<b>2,372,131</b>
Additions	382,928
Translation adjustments	(358,367)
<b>Balance, March 31, 2013</b>	<b>2,396,692</b>
Additions	66,954
Translation adjustments	(203,513)
<b>Balance, December 31, 2013</b>	<b>2,260,133</b>

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

### 5. REHABILITATION TRUST FUND

The rehabilitation trust fund consists of a deposit at the Department of Mineral Resources in South Africa for rehabilitation costs on mines where exploration has begun. A continuity of the balance is as follows:

Costs	\$
<b>Balance, March 31, 2012</b>	<b>35,070</b>
Translation adjustments	(5,299)
<b>Balance, March 31, 2013</b>	<b>29,771</b>
Translation adjustments	(2,528)
<b>Balance, December 31, 2013</b>	<b>27,243</b>

### 6. LONG TERM DEBT

Long-term debt consists of the following:

	December 31, 2013	March 31, 2013
Term loan 1 (a)	3,500,000	3,500,000
Convertible debenture 1 (b)	-	2,000,000
Term loan 2 (c)	2,400,000	2,400,000
Convertible debenture 2 (d)	1,600,000	1,600,000
Total principal payments	7,500,000	9,500,000
Add: Accrued Interest	9,575	934,675
Total long-term debt	7,490,425	10,434,675
Less: current portion due in one year	1,317,048	3,036,421
Long-term portion of principal payments	6,173,377	7,398,254

- Term loan 1 was issued in March 2011, bears interest at an annual fixed rate of 7% and has a 5 year term. This loan was non-amortizing for a 24 month period from the date of issuance and no interest or principal were due until following this 24 month period, at which time the principal and interest is payable monthly in accordance with a 36 month amortization schedule. The Company has the right to repay the outstanding principal and any accrued and unpaid interest under this loan at any time without notice or penalty.
- Convertible debenture 1 was issued in March 2011, bears interest at an annual fixed rate of 7% and has a 5 year term. Subsequent to yearend, this debt was converted by the holder into common shares of the company.
- Term loan 2 was issued in November 2012, bears interest at an annual fixed rate of 9% and has a 4 year term. This loan is secured by a promissory note until January 2015, at which time principal and interest is payable monthly in accordance with a 36 month amortization schedule. The Company has the right to repay the outstanding principal and any accrued and unpaid interest under this loan at any time without notice or penalty. (See subsequent events Note 16)



# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

- 
- d) Convertible debenture 2 was issued in November 2012, bears interest at an annual fixed rate of 9% and has a 4 year term. The convertible debenture is non-amortizing until January, 2015. The principal amount and accrued interest is convertible by the holder into Class A common shares of the Company at \$1.60 per share. The value attributed to the equity conversion option was nil. The Company has the right to repay the outstanding principal and any accrued and unpaid interest, without penalty, on not less than 30 days' notice and subject to the conversion rights contained in the convertible debenture. (See subsequent events Note 16)

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

2013-2014	743,648
2014-2015	1,339,204
2015-2016	2,487,956
2016-2017	1,637,611
2014-2018	1,290,785

The amount due to Nozala Investments of \$923,395 CAD (March 31, 2013 - \$263,062 CAD, 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. The loan is denominated in South African Rand and no payments were made in the nine months ended December 31, 2013 or the year ended March 31, 2013.

### 7. DECOMMISSIONING LIABILITY

The total decommissioning liability 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 December 31, 2013 is \$483,871 (March 31, 2013 - \$473,223) adjusted annually using an inflation rate of 3.00 - 6.00%. The long-term portion of the liability was discounted using a risk free rate of 6.50%. These costs are expected to be incurred in approximately 10 years. Upon the completion of the sale of So Ver Mine (Pty) Ltd the Asset Retirement Obligation of \$355,695 (March 31, 2013 - \$347,868) will be eliminated.

An amount equivalent to \$27,243 (March 31, 2013 - \$29,771) has been deposited with the Department of Mineral Resources in South Africa in respect of rehabilitation costs (Note 5).

---

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

### 8. SHARE CAPITAL

	Number of Shares	Amount
Authorized:		
Unlimited common voting shares, no par value		
Issued:		
Balance, March 31, 2012	27,495,270	\$ 10,853,483
Issued during fiscal 2013:		
Exercise of warrants (a)	2,350,897	1,810,192
Exercise of options (b) (c) (d) (e) (f) (g) (h) (i) (j) (k)	647,500	566,300
Balance, March 31, 2013	30,493,667	\$13,229,975
Issued during fiscal 2014:		
Conversion of debt (l)	3,061,227	2,295,920
Private placement (m)	1,587,784	1,106,077
Exercise of options (n)(o)	65,000	40,300
Balance, December 31, 2013	35,207,678	\$ 16,672,272

The weighted average number of shares outstanding for the period was 34,706,561 (29,837,601 in fiscal year 2013).

- a) 2,350,897 warrants were exercised at a price of \$0.50 between April 1, 2012 and May 3, 2012.
- b) 147,500 options were exercised at a price of \$0.50 by employees and directors between September 1st and 14<sup>th</sup>, 2012.
- c) 50,000 options were exercised at a price of \$0.50 by a director of the Company on October 19<sup>th</sup> 2012.
- d) 20,000 options were exercised at a price of \$0.50 by an employee of the Company on November 8<sup>th</sup> 2012.
- e) 35,000 options were exercised at a price of \$0.32 by a consultant to the Company on November 30<sup>th</sup> 2012.
- f) 30,000 options were exercised at a price of \$0.30 by an employee of the Company on January 15<sup>th</sup> 2013.
- g) 15,000 options were exercised at a price of \$0.30 by an employee of the Company on January 23<sup>th</sup> 2013.
- h) 4,500 options were exercised at a price of \$0.50 by a director of the Company on February 18<sup>th</sup> 2013.
- i) 50,000 options were exercised at a price of \$0.50 by directors of the Company on March 8<sup>th</sup> 2013.
- j) 170,500 options were exercised at a price of \$0.50 by directors of the Company on March 14<sup>th</sup> 2013.
- k) 125,000 options were exercised at a price of \$0.50 by employees of the Company on March 14<sup>th</sup> 2013.
- l) Conversion of debt at a price of \$0.75, conversion amount was \$2,295,920 on April 8<sup>th</sup> 2013
- m) Placement of 1,587,784 shares at a price of \$1.25 on June 17<sup>th</sup> 2013
- n) 25,000 options were exercised at a price of \$0.30 by a consultant to the company on September 17<sup>th</sup>, 2013
- o) 40,000 options were exercised at a price of \$0.30 by an employee of the company on December 23<sup>th</sup>, 2013

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

### Warrants

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

	December 31, 2013		March 31, 2013	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	-	-	2,456,047	\$ 0.50
Warrants issued	817,038	\$1.75	-	-
Warrants expired	-	-	(105,150)	\$ 0.50
Warrants exercised	-	-	(2,350,897)	\$ 0.50
Outstanding, end of period	817,038	\$1.75	-	-
Exercisable, end of period	817,038	\$1.75	-	-

	December 31, 2013	March 31, 2013
Balance, beginning of year	\$ -	\$ 663,134
Warrants issued	849,720	-
Exercise of warrants	-	(634,742)
Expiry of warrants	-	(28,392)
Balance, end of period	849,720	-

There were 817,000 stock warrants issued in the period ended December 31, 2013. The warrant valuation was calculated using the Black-Scholes pricing model with the following assumptions: zero dividend yield, expected volatility 174% and risk free rate of 1.08%. Warrant 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 warrants.

The following warrants were outstanding at December 31, 2013:

Number of warrants outstanding and exercisable	Exercise Price	Weighted average remaining life	Expiry date
817,038	\$ 1.75	2.5	June 17, 2016

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

### Stock options

The Company adopted a formal stock option plan in December 21, 2013 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 7,033,035 of its issued and outstanding common stock. Under the policy, the exercise price of each option is equal to 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.

	December 31 2013		March 31 2013	
	Number of options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	3,848,333	\$ 0.35	4,535,833	\$ 0.35
Options expired	-	-	(40,000)	\$ 0.50
Options issued	1,700,000	\$1.27	-	-
Options exercised	65,000	\$0.30	(647,500)	\$ 0.46
Outstanding, end of year	5,483,333	\$ 0.62	3,848,333	\$ 0.33
Exercisable, end of year	5,483,333	\$ 0.62	3,848,333	\$ 0.33

The following stock options were outstanding at December 31, 2013:

Number of options outstanding and exercisable	Exercise Price	Weighted average remaining life	Expiry date
2,483,333	\$ 0.30	1.50	June 2 , 2015
1,200,000	\$0.38	2.25	April 8, 2016
100,000	\$0.32	3.00	December 8, 2016
150,000	\$1.50	2.50	May 1, 2016
1,550,000	\$1.25	4.75	August 6 2018

The following stock options were outstanding at March 31, 2013:

Number of options outstanding and exercisable	Exercise Price	Weighted average remaining life	Expiry date
2,548,333	\$ 0.30	2.25	June 2 , 2015
1,200,000	\$0.38	3.00	April 8, 2016
100,000	\$0.32	3.75	December 8, 2016

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

### **Stock-based compensation**

The Company has recognized \$2,170,000 in stock based compensation for the period ended September 30, 2013 (nil in fiscal year 2013).

There were 1,700,000 options issued by the Company in the period ended December 31, 2013 (nil in fiscal year 2013).

There were 1,700,000 stock options issued in the period ended December 31, 2013. The option valuation was calculated using the Black-Scholes pricing model with the following assumptions: zero dividend yield, expected volatility 175-292% and risk free rate of 1.02-1.12%. 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.

### **9 .CONTRIBUTED SURPLUS**

	\$
<b>Balance, March 31, 2012</b>	<b>4,698,952</b>
Exercise of options	(266,850)
Expiry of warrants	28,392
<b>Balance, March 31, 2013</b>	<b>4,460,494</b>
Issuance of Options	2,359,000
Exercise of Options	(20,800)
<b>Balance December 31, 2013</b>	<b>6,798,694</b>

### **10. RELATED PARTY TRANSACTIONS**

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

	December 31, 2013	March 31, 2013
Salaries and consulting	\$ 437,000	\$ 498,000
Directors fees	48,000	49,000
Performance bonuses	208,000	420,000

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As at December 31, 2013, the Company owed \$3,477 (March 31, 2013 - \$220,020) 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 CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

### 11. 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	Exploration and Evaluation Assets	Cash and Equivalents	Other Assets
<b>December 31, 2013</b>					
Canada	357,640	11,796	-	213,608	132,236
South Africa	6,558,158	3,327,871	2,260,133	534,106	436,048
	6,915,798	3,339,667	2,260,133	\$ 747,714	568,284
<b>March 31, 2013</b>					
Canada	552,350	14,369	-	444,533	93,448
South Africa	6,706,078	3,635,725	2,396,692	349,089	324,572
	7,258,428	3,650,094	2,396,692	\$ 793,622	415,020

For the period ended December 31, 2013 and the year ended March 31, 2013, all revenue from the sales of rough diamonds is attributed to the South Africa geographical segment. 90% of revenue recorded was attributed to one customer. At December 31, 2013 there was \$ nil in a receivable balance outstanding with this customer (\$nil March 31, 2013).

### 12. 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, 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 10. The Company's cash has been assessed on the fair value hierarchy described above; cash is classified as Level 1.

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

### 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.

The accounts receivable ageing amounts are as follows:

0-30 days past due	\$4,829
90 days past due	-
<u>120+ days past due</u>	<u>\$71,314</u>
<b>Total</b>	<b>\$76,143</b>

#### 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 \$10,000.

#### c) Foreign Currency 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:

	<b>December 31, 2013</b>	<b>March 31, 2013</b>
Cash	\$534,106	\$349,089
Accounts receivable	1,033	152,212
Rehabilitation trust fund	27,243	29,771
Accounts payable	195,418	43,559
Long term debt	923,395	926,062
<u>Accrued and taxes payable</u>	<u>-</u>	<u>-</u>

A 5% change in the Southern African Rand would result in other comprehensive income (loss) changing by approximately \$122,000.

#### d) Liquidity risk

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

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 \$1,615,199 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, issuing equity, cash flow provided by operating activities, existing bank loans and by acquiring new project loans.

	<i>Current</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Accounts payable	298,151	-	-	-
Long-term debt	1,317,048	2,878,977	1,953,304	1,713,977
	\$1,615,199	\$2,878,977	\$1,953,304	\$1,713,977

### 13. 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:

	<b>December 31, 2013</b>	<b>March 31, 2013</b>
Working capital	(437,006)	(2,383,312)
Long-term debt	6,173,377	11,360,737
Shareholders' (deficit) equity	(2,437,692)	(5,313,706)

Working capital is calculated based on current assets less current liabilities, excluding prepaids, assets held for sale, deferred income and asset retirement obligation.

### 14. COMMITMENTS

The Company has a commitment to lease office space at a rate of \$3,189 per month. The lease expires in May, 2017. The minimum lease payments under this lease are \$38,268 per year.



# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended December 31, 2013 and year ended March 31, 2013

---

### **15. 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 \$61,780). 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 \$96,868).

Due to certain covenants on both sales not being met at the balance sheet date, \$157,648 (March 31, 2013 - \$172,277) has been recorded as deferred income.

### **16. SUBSEQUENT EVENTS**

On January 7 2014 15,000 options were exercised at a price of \$0.30

As a result of meetings held in January of 2014, on February 04, 2014 the company and Tiffany & Co. agreed to defer any payments on the \$2,400,000 term loan and the \$1,600,000 convertible debenture until January 2015. (Note 6)

---