

# Condensed Consolidated Financial Statements

For the Interim Period Ended  
June 30, 2014

## 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. X ~ š Z ^ Ç u % v Z À v %o Œ %o Œ Ç v Œ š Z Œ •%o } v • ] ] o ] š Ç } ( š Z } u %o v Ç d Z } u %o v Ç [ • ] v %o v v š µ ] š } Œ Z • v } š %o Œ ( } Œ u Œ À ] Á } accordance with standards established by the Canadian Institute of Chartered Accountants for a Œ À ] Á } ( ] v š Œ ] u ( ] v v ] o • š š u v š • Ç v v š ] š Ç [ • µ ] š } Œ X

**DIAMCOR MINING INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at:	June 30 2014 unaudited	March 31 2014
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 2,281,314	\$ 3,880,112
Accounts receivable	206,808	294,918
Inventory (Note 2)	132,083	294,300
Prepays	109,012	88,855
Assets held for sale (Note 15)	49,748	51,975
	<u>2,778,965</u>	<u>4,610,160</u>
<b>NON CURRENT</b>		
REHABILITATION TRUST FUND (Note 5)	27,028	28,238
PROPERTY, PLANT AND EQUIPMENT (Note 3)	4,140,963	4,505,090
EXPLORATION AND EVALUATION ASSETS (Note 4)	3,079,215	2,356,547
DEFERRED TAXES	282,994	295,665
<b>Total assets</b>	<u>\$ 10,309,165</u>	<u>\$ 11,795,700</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable (Note 16)	\$ 643,308	\$ 1,251,914
Decommissioning liability (Note 7)	364,780	358,304
Current portion of long term debt (Note 6)	2,399,027	1,656,228
Deferred income (Note 15)	156,403	163,406
	<u>3,563,518</u>	<u>3,429,852</u>
<b>NON CURRENT</b>		
LONG TERM DEBT (Note 6)	4,638,473	5,608,860
DECOMMISSIONING LIABILITY (Note 7)	126,295	129,116
DUE TO NOZALA INVESTMENTS (Note 6)	972,072	985,732
	<u>9,300,358</u>	<u>10,153,560</u>
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital (Note 8)	19,463,586	19,379,886
Contributed surplus (Note 9)	7,859,284	7,902,484
Warrants (Note 8)	1,446,593	1,446,593
Accumulated other comprehensive loss	(2,651,338)	(1,932,155)
Deficit	(23,665,927)	(23,560,651)
	<u>2,452,198</u>	<u>3,236,157</u>
Non-controlling interests	(1,443,391)	(1,594,017)
<b>Total equity</b>	<u>1,008,807</u>	<u>1,642,140</u>
<b>Total liabilities and equity</b>	<u>\$ 10,309,165</u>	<u>\$ 11,795,700</u>
<b>COMMITMENTS (Note 14)</b>		
<b>SUBSEQUENT EVENTS (Note 17)</b>		
On behalf of the board		
"Dean Taylor"	Director	
"Sheldon Nelson"	Director	

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

	For the three months ended June 30, 2014	For the three months ended June 30, 2013
<b>SALES</b>	\$ 533,547	\$ 446,365
<b>OPERATING EXPENSES</b>	154,966	346,504
<b>NET INCOME (LOSS) FROM OPERATING ACTIVITIES</b>	378,581	99,861
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Accretion and depreciation	226,323	165,684
Consulting fees	108,974	37,746
Insurance	13,958	14,350
Interest and bank charges	174,578	182,711
Office	29,996	40,279
Professional fees	11,705	50,689
Promotion and investor relations	31,595	22,991
Salaries and wages	197,859	149,390
Stock-based compensation (Note 8)	-	189,000
Transfer agent and regulatory fees	8,773	17,353
Royalties	2,668	-
Travel	37,358	28,458
	843,787	898,651
<b>LOSS FROM OPERATIONS</b>	\$ (465,206)	\$ (798,790)
<b>OTHER INCOME AND EXPENSES</b>		
Interest and other Income	5,989	1,355
Gain on sale of assets	114,612	-
Foreign exchange	(1,125)	73
	119,476	1,428
<b>LOSS BEFORE INCOME TAX</b>	(345,730)	(797,362)
Taxes	-	-
<b>NET LOSS FOR THE PERIOD</b>	\$ (345,730)	\$ (797,362)
<b>OTHER COMPREHENSIVE LOSS</b>		
Foreign currency translation loss	\$ (328,103)	\$ (204,657)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	\$ (673,833)	\$ (1,002,019)
<b>Total net loss attributable to:</b>		
Non-controlling interests	\$ (240,454)	\$ (275,206)
Equity holders of parent	(105,276)	(522,156)
	\$ (345,730)	\$ (797,362)
<b>Total comprehensive Income (loss) attributable to:</b>		
Non-controlling interests	\$ 150,633	\$ 12,059
Equity holders of parent	\$ (824,466)	\$ (1,014,078)
	\$ (673,833)	\$ (1,002,019)
<b>Loss per share - basic and diluted (Note 8)</b>	\$ (0.01)	\$ (0.02)

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

	For the three months ended June 30, 2014	For the three months ended June 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (345,730)	\$ (797,362)
<b>Items not affecting cash</b>		
Accretion and depreciation (Note 3 & 7)	226,323	165,684
Stock-based compensation (Note 8)	-	189,000
Foreign exchange	(163,894)	48,762
Interest on long term debt	172,330	181,460
	234,759	584,906
	(110,971)	(212,456)
<b>Changes in non-cash working capital</b>		
Accounts payable	(608,606)	20,499
Accounts receivable	88,110	(574,327)
Inventory	162,217	(119,843)
Prepays	(20,157)	(9,213)
	(378,436)	(682,884)
Cash flow generated by (used in) operating activities	(489,407)	(895,340)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and exploration and evaluation assets (Note 3 & 4)	(724,547)	(63,352)
Cash flow used in investing activities	(724,547)	(63,352)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Repayment)advances of long term debt	(371,329)	(371,329)
Proceeds from issuance of share capital net of issue costs (Note 8)	40,500	1,955,798
Cash flow generated by financing activities	(330,829)	1,584,469
<b>Effect of change in exchange rate for cash</b>	(54,015)	(65,596)
<b>Increase (Decrease) in cash and cash equivalents</b>	(1,598,798)	560,181
Cash and cash equivalents - beginning of year	3,880,112	793,622
Cash and cash equivalents - end of year	\$ 2,281,314	\$ 1,353,803

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

	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Shareholders' Equity
Balance - March 31, 2013	13,229,975	4,460,494	-	(20,256,481)	(1,241,745)	(1,505,949)	(5,313,706)
<b>Issued during fiscal 2014</b>							
Conversion of debt	2,295,920	-	-	-	-	-	2,295,920
Private placement	4,019,318	-	1,446,593	-	-	-	5,465,911
Share issuance costs	(214,927)	-	-	-	-	-	(214,927)
Issuance of options (Note8)	-	3,467,590	-	-	-	-	3,467,590
Exercise of options (Note 8)	49,600	(25,600)	-	-	-	-	24,000
Net loss for the year	-	-	-	(3,304,170)	-	(388,903)	(3,693,073)
Other comprehensive loss	-	-	-	-	(690,410)	300,835	(389,575)
Balance - March 31, 2014	19,379,886	7,902,484	1,446,593	(23,560,651)	(1,932,155)	(1,594,017)	1,642,140
<b>Issued during fiscal 2015</b>							
Exercise of options (Note 8)	83,700	(43,200)	-	-	-	-	40,500
Net loss for the year	-	-	-	(105,276)	-	(240,454)	(345,730)
Other comprehensive loss	-	-	-	-	(719,183)	391,080	(328,103)
Balance - June 30 2014	19,463,586	7,859,284	1,446,593	(23,665,927)	(2,651,338)	(1,443,391)	1,008,807
Balance - June 30 2013	16,631,972	4,649,494	849,720	(20,778,637)	(1,733,668)	(1,493,889)	(1,875,008)

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

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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### 1. NATURE OF OPERATIONS

Diamcor Mining Inc. (the "Company") 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 condensed consolidated financial statements were authorized for issuance by the Board of Directors on August 28, 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 condensed 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 condensed 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, 2014. 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

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# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

### 2.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at June 30, 2014. Subsidiaries are fully consolidated. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions and 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.

Details of the Company's subsidiaries as at June 30, 2014 are as follows:

Name	Place of Incorporation	Interest	Operations	Functional Currency
DMI Diamonds South Africa (Pty) Ltd.	South Africa	100%	Active	Rand
DMI Minerals South Africa (Pty) Ltd.	South Africa	70%	Active	Rand
So Ver Mine (Pty) Ltd.	South Africa	85%	Dormant	Rand

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 was sold during fiscal 2010 and is awaiting satisfaction of certain sale covenant requirements (see Note 15) (see Note 17).

### 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, decommissioning liability, recognition of deferred tax assets, and depreciation and amortization charges.

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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### ***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 June 30, 2014, 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 resources 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 consolidated 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, profit or loss, and in the case of decommissioning liability, property, plant and equipment.

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

### ***Cash and cash equivalents***

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

### ***Inventory***

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 June 30, 2014, there was \$132,083 (2014 - \$294,300) in rough diamond inventory.

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# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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

Management has elected to capitalize to exploration and evaluation assets, certain expenditures, namely professional fees, site sampling costs, and mining rights 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 which 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 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 decommissioning liability, 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 depleted 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 depletion 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 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

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# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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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 when a 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 profit or loss immediately.

### ***Decommissioning liability***

The Group assesses its decommissioning liability 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 consolidated 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* ("IAS 16"). 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 *Impairment of Assets* ("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 profit or loss. 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 reporting date are recognized as other comprehensive loss.

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# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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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 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 loss through the consolidated statement of loss and comprehensive loss are included in determining the profit or loss on disposal of that operation recognized in profit or loss.

### **Financial instruments**

#### **Financial assets**

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 financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets include cash and cash equivalents 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 include 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 consolidated 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 ("EIR") method, 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, and are subsequently measured at amortized cost using the EIR method, with interest expense recognized on an effective yield basis. The Group's financial liabilities include accounts payable, long-term debt and amount 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.

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# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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### **Income taxes**

Income tax expense comprises current income tax and deferred tax. Income tax is recognized in the consolidated statement of loss and comprehensive loss, 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 consolidated 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 Group 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.

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# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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### **Loss per share**

Basic loss per share is calculated by dividing the 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 loss per share is calculated by adjusting the loss 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 Group is in a loss position.

### **New and amended accounting standards**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC"). The Company intends to adopt those standards when they become effective. The Company has yet to assess the full impact of these standards.

- IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The impairment and hedge accounting principles to be included in IFRS 9 have not yet been issued by the IASB.
- IAS 32 "Financial instruments - Presentation" in December 2011, the IASB issued amendments to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The standard is required to be adopted retrospectively for periods beginning on or after January 1, 2014.
- IFRIC 21, "Levies" provides guidance on accounting for levies in accordance with the requirements of IAS 37. *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and states that levies do not arise from executory contracts or other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The Company intends to adopt IFRIC 21 in its financial statements for the annual period beginning January 1, 2014.

Effective April 1, 2014, the Group adopted the following standards:

IFRS 10 "Consolidated Financial Statements" outlines a new methodology to determine whether to consolidate an investee. This new standard became effective on January 1, 2013. There was no impact to the Group on adoption of this standard.

IFRS 11 "Joint Arrangements" outlines the accounting treatment for joint arrangements, notably joint operations which will follow the proportionate consolidation method and joint ventures which will follow the equity accounting method. This new standard became effective on January 1, 2013. There was no impact to the Group on adoption of this standard.

IFRS 12 "Disclosure of Interests in Other Entities" outlines disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. These annual disclosure requirements became effective on January 1, 2013. There was no impact to the Group on adoption of this standard.

IFRS 13 "Fair Value Measurement" defines fair value, provides guidance on measuring fair value and outlines disclosure requirements for fair value measurement. This standard applies when another IFRS standard requires fair value

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# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

measurements or disclosures, with some exceptions including IFRS 2 “Share based payments” and IAS 17 “Leases”. This new standard became effective on January 1, 2013. There was no impact to the Group on 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. There was no impact to the Group on adoption of this standard.

### 3. PROPERTY, PLANT AND EQUIPMENT

	<i>Plant and Equipment</i>	<i>Motor Vehicles</i>	<i>Office Equipment</i>	<i>Computers</i>	<i>Leaseholds</i>	<b>Total \$</b>
<b>Cost</b>						
<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	1,753,507	13,650	-	1,259	-	1,768,416
Translation adjustments	(205,942)	(5,596)	(846)	(461)	-	(212,845)
<b>Balance, March 31, 2014</b>	<b>5,547,169</b>	<b>116,726</b>	<b>47,261</b>	<b>61,002</b>	<b>33,090</b>	<b>5,805,248</b>
Additions	(141,308)	-	39,987	2,205	-	(99,116)
Translation adjustments	(237,736)	(5,003)	(668)	(364)	-	(243,770)
<b>Balance, June 30, 2014</b>	<b>5,168,125</b>	<b>111,723</b>	<b>86,580</b>	<b>62,843</b>	<b>33,090</b>	<b>5,462,362</b>
<b>Accumulated Depreciation</b>						
<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	688,262	25,032	3,330	4,784	-	721,408
Translation adjustments	(18,509)	(2,115)	(154)	(55)	-	(20,833)
<b>Balance, March 31, 2014</b>	<b>1,118,931</b>	<b>67,252</b>	<b>31,290</b>	<b>49,595</b>	<b>33,090</b>	<b>1,300,158</b>
Depreciation	214,174	6,344	1,347	801	-	222,667
Translation adjustments	(198,021)	(3,060)	(242)	(101)	-	(201,425)
<b>Balance, June 30, 2014</b>	<b>1,135,084</b>	<b>70,536</b>	<b>32,395</b>	<b>50,295</b>	<b>33,090</b>	<b>1,321,399</b>
<b>Net book value, March 31, 2014</b>	<b>4,428,238</b>	<b>49,474</b>	<b>15,971</b>	<b>11,407</b>	<b>-</b>	<b>4,505,090</b>
<b>Net book value, June 30, 2014</b>	<b>4,033,041</b>	<b>41,188</b>	<b>54,185</b>	<b>12,549</b>	<b>-</b>	<b>4,140,963</b>

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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### 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, 2013</b>	<b>2,396,692</b>
Additions	83,262
Translation adjustments	(123,407)
<b>Balance, March 31, 2014</b>	<b>2,356,547</b>
Additions	823,663
Translation adjustments	(100,995)
<b>Balance, June 30, 2014</b>	<b>3,079,215</b>

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# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

### 5. REHABILITATION TRUST FUND

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

Costs	\$
<b>Balance, March 31, 2013</b>	<b>29,771</b>
Translation adjustments	(1,533)
<b>Balance, March 31, 2014</b>	<b>28,238</b>
Translation adjustments	(1,210)
<b>Balance, June 30, 2014</b>	<b>27,028</b>

### 6. LONG TERM DEBT AND DUE TO NOZALA INVESTMENT

Long-term debt consists of the following:

	June 30, 2014	March 31, 2014
Term loan 1 (a)	2,441,791	2,767,066
Term loan 2 (c)	2,757,426	2,698,813
Convertible debenture 2 (d)	1,838,284	1,799,209
Total debt including accrued interest	7,037,500	7,265,088
Less: current portion due in one year	2,399,027	1,656,228
Long-term portion	4,638,473	5,608,860

- a) Term loan 1 was issued in March 2011, bears interest at an annual fixed rate of 7% and has a 5 year term with blended monthly payments of \$123,776. 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.
- b) Convertible debenture 1 was issued in March 2011, bears interest at an annual fixed rate of 7% and has a 5 year term. This debt was converted by the holder into common shares of the Company on April 8, 2013 (Note 8).
- c) Term loan 2 was issued in November 2012, bears interest at an annual fixed rate of 9% and has a 4 year term. On February 04, 2014, the Company and Tiffany & Co. agreed to defer any payments on the \$2,400,000 term loan until January 2015. This loan is secured by a promissory note until January 2015, at which time principal and interest is payable monthly at \$91,371 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.



# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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- d) Convertible debenture 2 was issued in November 2012, bears interest at an annual fixed rate of 9% and has a 4 year term. On February 04, 2014 the Company and Tiffany & Co. agreed to defer any payments on the \$1,600,000 convertible debenture until January 2015. The convertible debenture is non-amortizing and the Company will be required to make blended monthly payments of \$60,914 commencing in January 2015. The principal amount and accrued interest is convertible by the holder into common voting 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.

Term loan 1 and 2 and convertible debenture 1 and 2 are secured by a general security agreement which states the loans are secured by 100% of the general assets of the Company.

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

2014-2015	1,326,363
2015-2016	2,917,606
2016-2017	1,627,700
2014-2018	1,320,259

The amount due to Nozala Investments of \$972,075 CAD (March 31, 2014 - \$985,732 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 period ended June 30, 2014 or the year ended March 31, 2014.

### 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 decommissioning liability based on the South African Department of Mineral Reserves estimate of required decommissioning costs, adjusted for inflation. This book value of the liability at June 30, 2014 is \$491,075 (March 31, 2014 - \$487,420) 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, the decommissioning liability of \$364,780 (March 31, 2014 - \$358,304) will be eliminated. (See note 17)

An amount equivalent to \$27,028 (March 31, 2014 - \$28,238) has been deposited with the South African Department of Mineral Resources in respect of decommissioning costs (Note 5).

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# Diamcor Mining Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the period ended June 30, 2014 and year ended March 31, 2014

## 8. SHARE CAPITAL

	Number of Shares	Amount
Authorized:		
Unlimited common voting shares, no par value		
Issued:		
Balance, March 31, 2013	30,493,667	\$ 13,229,975
Issued during fiscal 2014:		
Conversion of debt (a)	3,061,227	2,295,920
Private placement (b)(f)(g)	4,074,342	4,019,318
Share issuance costs		(214,927)
Exercise of options (c)(d)(e)	80,000	49,600
Balance, March 31, 2014	37,709,236	\$19,379,886
Issued during fiscal 2015:		
Exercise of options (h)(i)	135,000	83,700
Balance, June 30, 2014	37,844,236	\$ 19,463,586

The weighted average number of shares outstanding for the period was 37,757,014 (34,890,752 in fiscal year 2014).

- a) Conversion of debt at a price of \$0.75, conversion amount was \$2,295,920 on April 8<sup>th</sup> 2013
- b) Private Placement on June 17, 2013 of 1,587,784 shares at a price of \$1.25 and 817,038 warrants at an exercise price of \$1.80. The warrants were assigned a value of \$556,525
- c) 25,000 options were exercised at a price of \$0.30 by a consultant to the Company on September 17<sup>th</sup>, 2013
- d) 40,000 options were exercised at a price of \$0.30 by an employee of the Company on December 23<sup>th</sup>, 2013
- e) 15,000 options were exercised at a price of \$0.30 by an employee of the Company on January 7<sup>th</sup>, 2014
- f) Private placement on March 11, 2014 consisting of 2,147,858 shares at a price of \$1.40 and 1,188,400 warrants at an exercise price of \$1.80. The warrants were assigned a value of \$769,558.
- g) Private placement on March 21, 2014 consisting of 338,700 shares at a price of \$1.40 and 169,350 warrants at an exercise price of \$1.80. The warrants were assigned a value of \$120,510.
- h) 10,000 options were exercised at a price of \$0.30 by an employee of the Company on April 10<sup>th</sup>, 2014
- i) 125,000 options were exercised at a price of \$0.30 by a consultant of the Company on June 2<sup>nd</sup>, 2014

# Diamcor Mining Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the period ended June 30, 2014 and year ended March 31, 2014

## **Warrants**

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

	<b>June 30, 2014</b>		<b>March 31, 2014</b>	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	2,174,788	\$ 1.78	-	-
Warrants issued	-	-	2,174,788	\$ 1.78
Outstanding, end of period	2,174,788	\$1.78	2,174,788	\$ 1.78
Exercisable, end of period	2,174,788	\$1.78	2,174,788	\$1.78

	<b>June 30, 2014</b>	<b>March 31, 2014</b>
Balance, beginning of year	\$ 1,446,593	\$ -
Warrants issued	-	1,446,593
Balance, end of period	\$ 1,446,593	\$ 1,446,593

There were no stock warrants issued in the period ended June 30, 2014. (2,174,788 March 31 2014) The warrant valuation was calculated using the Black-Scholes pricing model with the following assumptions: zero dividend yield, expected volatility between 87% and 101% and risk free rate between 1.08% and 1.25%. 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.

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

The following warrants were outstanding at June 30, 2014:

Number of warrants outstanding and exercisable	Exercise Price	Weighted average remaining life	Expiry date
817,038	\$ 1.75	1.97	June 17 , 2016
1,188,400	\$ 1.80	2.70	March 11, 2017
169,350	\$ 1.80	2.72	March 21, 2017

### **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.

	June 30 2014		March 31 2014	
	Number of options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	6,768,333	\$ 0.77	3,848,333	\$ 0.33
Options expired	150,000	\$1.50	-	-
Options issued	-	-	3,000,000	\$ 1.33
Options exercised	(135,000)	\$0.30	(80,000)	\$ 0.30
Outstanding, end of year	6,483,333	\$ 0.88	6,768,333	\$ 0.77
Exercisable, end of year	6,483,333	\$ 0.88	6,768,333	\$ 0.77

The following stock options were outstanding at June 30, 2014:

Number of options outstanding and exercisable	Exercise Price	Weighted average remaining life	Expiry date
2,333,333	\$ 0.30	0.92	June 2 , 2015
1,200,000	\$0.38	1.77	April 8, 2016
100,000	\$0.32	2.43	December 8, 2016
1,550,000	\$1.25	4.10	August 6, 2018
1,300,000	\$1.40	4.75	March 31, 2019

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

The following stock options were outstanding at March 31, 2014:

Number of options outstanding and exercisable	Exercise Price	Weighted average remaining life	Expiry date
2,468,333	\$ 0.30	1.17	June 2 , 2015
1,200,000	\$0.38	2.02	April 8, 2016
100,000	\$0.32	2.69	December 8, 2016
150,000	\$1.50	2.09	May 1, 2016
1,550,000	\$1.25	4.35	August 6, 2018
1,300,000	\$1.40	5.00	March 31, 2019

### *Stock-based compensation*

The Company has recognized \$nil in stock-based compensation for the period ended June 30, 2014 (3,467,590 in fiscal year 2014).

There were no options issued by the Company in the period ended June 30, 2014 (3,000,000 in fiscal year 2014). The option valuation in fiscal 2014 was calculated using the Black-Scholes pricing model with the following assumptions: zero dividend yield, expected volatility between 120-131% and risk free rate between 1.71-1.77%. 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, 2013</b>	<b>4,460,494</b>
Exercise of options	(25,600)
Issuance of options	3,467,590
<b>Balance, March 31, 2014</b>	<b>7,902,484</b>
Exercise of Options	(43,200)
<b>Balance, June 30, 2014</b>	<b>7,859,284</b>

### 10. RELATED PARTY TRANSACTIONS

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

	June 30, 2014	March 31, 2014
Salaries and consulting	\$162,000	\$ 3,408,935
Directors fees	18,000	66,000
Performance bonuses	210,000	418,000

These transactions were in the normal course of operations and were measured at fair value. As at June 30, 2014, the Company owed \$219,166 (March 31, 2014 - \$218,367) to directors of the Group, companies controlled by a director, an individual related to a director and to former directors.

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

### 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>June 30, 2014</b>					
Canada	\$ 1,502,566	\$ 9,639	\$ -	\$ 1,399,203	\$ 93,723
South Africa	8,806,599	4,131,324	3,079,215	882,111	713,950
	<b>\$ 10,309,165</b>	<b>\$ 4,140,963</b>	<b>\$ 3,079,215</b>	<b>\$ 2,281,314</b>	<b>\$ 807,673</b>
<b>March 31, 2014</b>					
Canada	\$ 2,376,680	\$ 10,486	\$ -	\$ 2,281,348	\$ 84,846
South Africa	9,419,020	4,494,604	2,356,547	1,598,764	969,105
	<b>\$ 11,795,700</b>	<b>\$ 4,505,090</b>	<b>\$ 2,356,547</b>	<b>\$ 3,880,112</b>	<b>\$ 1,053,951</b>

For the period ended June 30, 2014 and the year ended March 31, 2014, all revenue from the sales of rough diamonds are attributed to the South Africa geographical segment. 90% of revenue recorded was attributed to one customer. At June 30, 2014 there was \$nil in an accounts receivable balance outstanding with this customer (\$194,582 March 31, 2014).

### 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 Nozala Investments and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying values due to the short term maturities of these items. The Company's cash and cash equivalents have been assessed on the fair value hierarchy described above; cash and cash equivalents are classified as Level 1.

# Diamcor Mining Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the period ended June 30, 2014 and year ended March 31, 2014

## 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 Group is exposed to credit risk only with respect to uncertainties as to timing and collectability of accounts receivable. The Group mitigates credit risk through standard credit and reference checks. There are no material financial assets that the Group considers past due. The Group 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 accounts receivable are sales taxes refundable due from the government of South Africa and Canada as well as trade receivables from diamond tenders; the Group does not foresee any significant risk in the collection.

The accounts receivable ageing amounts are as follows:

0-30 days past due but not impaired	\$145,482
90 days past due	-
<u>120+ days past due but not impaired</u>	<u>\$61,326</u>
<b>Total</b>	<b>\$206,808</b>

### b) Interest rate

The Group is not exposed to any material interest rate risk as the Group's 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 rate 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 Group is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Group 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 Group's reporting currency. The Group's monetary assets and liabilities denominated in South African Rand include:

	June 30, 2014	March 31, 2014
Cash	\$882,111	\$1,598,764
Accounts receivable	139,219	221,990
Prepays	82,879	76,935
Rehabilitation trust fund	27,028	28,238
Accounts payable	322,738	794,220
Long term debt	972,075	985,732

A 5% change in the South African Rand would result in other comprehensive loss changing by approximately \$21,000.

# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

### d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when they fall due. The Group 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 Group may revise timing of capital expenditures, bank loans, including project specific loans, or issue equity or a combination thereof.

The Group's current financial liabilities of \$3,042,335 are payable within one year. The Company enters into contractual obligations in the normal course of business operations. Management believes the Group'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>Fiscal 2016</i>	<i>Fiscal 2017</i>	<i>Fiscal 2018</i>
Accounts payable	643,308	-	-	-
Long term debt	2,399,027	2,917,606	1,627,700	1,320,259
	<b>\$3,042,335</b>	<b>\$2,917,606</b>	<b>\$1,627,700</b>	<b>\$1,320,259</b>

### 13. CAPITAL MANAGEMENT

The Group'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 Group 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 Group, from time-to-time, may adjust capital spending, issue new common shares, issue new debt or repay existing debt. The Group's capital is not subject to any restrictions.

The Group manages the following as capital:

	<b>June 30, 2014</b>	<b>March 31, 2014</b>
Working capital	(422,130)	1,497,332
Long term debt	4,638,473	5,925,884
Shareholders' equity	1,008,807	1,642,140

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

### 14. COMMITMENTS

The Group has a commitment to lease office space at a rate of \$3,364 per month. The lease expires in May, 2017. The minimum lease payments under this lease are \$40,368 per year.

### 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 \$60,300). As at the consolidated statement of financial position 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 \$96,103).

Due to certain covenants on both sales not being met at the reporting date, \$156,403 (March 31, 2014 - \$163,406) has been recorded as deferred income. (See note 17)



# Diamcor Mining Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended June 30, 2014 and year ended March 31, 2014

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### 16. ACCOUNTS PAYABLE

Trade Payables	\$ 621,034
South African Revenue Service	<u>22,274</u>
	\$ 643,308

### 17. SUBSEQUENT EVENTS

Only July 23, 2014 the Company formally notified the purchasers of So Ver Mine (pty) that they are in breach of the purchase agreement entered into in fiscal 2010; as such the Company will seek to have the purchaser vacate the property, and as a result of the breach, the purchasers have forfeited the purchase payments the Company has received.

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