



## **Interim Consolidated Condensed Financial Statements**

**For the Interim Period Ended  
December 31, 2015**

### 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<br>2015<br>(unaudited) | March 31<br>2015     |
|--|------------------------------------|----------------------|
| <b>ASSETS</b>                                      |                                    |                      |
| <b>CURRENT</b>                                     |                                    |                      |
| Cash and cash equivalents                          | \$ 994,224                         | \$ 2,042,886         |
| Accounts receivable                                | 77,766                             | 189,265              |
| Inventory (Note 2)                                 | 663,245                            | 142,319              |
| Prepays  | 118,941                            | 57,909               |
| Assets held for sale (Note 14)                     | -                                  | 51,728               |
|  | 1,854,176                          | 2,484,107            |
| <b>NON CURRENT</b>                                 |                                    |                      |
| REHABILITATION TRUST FUND (Note 4)                 | -                                  | 28,104               |
| RESTRICTED CASH (Note 16)                          | 371,546                            | 466,144              |
| PROPERTY, PLANT AND EQUIPMENT (Note 3)             | 6,395,913                          | 7,905,911            |
| <b>Total assets</b>                                | <b>\$ 8,621,635</b>                | <b>\$ 10,884,266</b> |
| <b>LIABILITIES</b>                                 |                                    |                      |
| <b>CURRENT</b>                                     |                                    |                      |
| Accounts payable (Note 15)                         | \$ 473,861                         | \$ 671,968           |
| Decommissioning liability (Note 6)                 | -                                  | 369,053              |
| Current portion of long term debt (Note 5)         | 1,894,387                          | 908,513              |
| Deferred income (Note 14)                          | -                                  | 162,628              |
|  | 2,368,248                          | 2,112,162            |
| <b>NON CURRENT</b>                                 |                                    |                      |
| LONG-TERM DEBT (Note 5)                            | 5,407,940                          | 5,934,750            |
| DECOMMISSIONING LIABILITY (Note 6)                 | 196,378                            | 222,704              |
| DEFERRED TAXES                                     | 19,941                             | 23,294               |
| DUE TO NOZALA INVESTMENTS (Note 5)                 | 1,040,472                          | 1,107,620            |
| <b>Total liabilities</b>                           | <b>9,032,979</b>                   | <b>9,400,530</b>     |
| <b>Equity</b>                                      |                                    |                      |
| <b>Equity attributable to owners of the parent</b> |                                    |                      |
| Share capital (Note 7)                             | 22,781,813                         | 21,500,397           |
| Contributed surplus (Note 8)                       | 7,256,868                          | 7,827,284            |
| Warrants (Note 7)                                  | 2,363,495                          | 2,363,495            |
| Accumulated other comprehensive loss               | (3,881,575)                        | (2,216,933)          |
| Deficit  | (26,241,304)                       | (25,498,744)         |
|  | 2,279,297                          | 3,975,499            |
| Non-controlling interests                          | (2,690,641)                        | (2,491,763)          |
| Total equity                                       | (411,344)                          | 1,483,736            |
| <b>Total liabilities and equity</b>                | <b>\$ 8,621,635</b>                | <b>\$ 10,884,266</b> |

**COMMITMENTS** (Note 13)

**SUBSEQUENT EVENTS** (Note 17)

On behalf of the board

"Dean Taylor"

Director

"Sheldon Nelson"

Director

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

**Diamcor Mining Inc.**  
**Consolidated Statements Of Loss and Comprehensive Loss**

|  | For the<br>three months ended<br>December 31, 2015 | For the<br>three months ended<br>December 31, 2014 | For the<br>nine months ended<br>December 31, 2015 | For the<br>nine months ended<br>December 31, 2014 |
|--|--|--|---|---|
| <b>SALES</b>                                       | \$ 1,733,291                                       | \$ 886,843   | \$ 3,219,956                                      | \$ 2,029,448                                      |
| <b>OPERATING EXPENSES</b>                          | 1,322,959  | 709,499  | 2,381,345   | 1,103,804   |
| <b>NET INCOME FROM OPERATING ACTIVITIES</b>        | 410,332  | 177,344  | 838,611   | 925,644   |
| <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>         |  |  |   |   |
| Accretion and depreciation (note 3 and 6)          | 215,149  | 229,316  | 693,058   | 684,040   |
| Consulting fees                                    | 49,377   | 49,550   | 157,449   | 208,077   |
| Insurance  | 17,471   | 19,205   | 57,357  | 47,150  |
| Interest and bank charges                          | 190,819  | 171,856  | 563,127   | 517,711   |
| Office   | 58,389   | 53,230   | 138,568   | 119,667   |
| Bad debt (Note 14)                                 | 102,212  | -  | 102,212   | -   |
| Professional fees                                  | 23,446   | 24,301   | 81,880  | 85,810  |
| Promotion and investor relations                   | 42,169   | 15,154   | 158,692   | 81,625  |
| Salaries and wages                                 | 149,912  | 181,977  | 507,202   | 557,354   |
| Stock-based compensation (Note 7)                  | 71,000   | -  | 91,500  | -   |
| Transfer agent and regulatory fees                 | 12,405   | 27,223   | 31,448  | 45,509  |
| Royalties  | 11,524   | 4,434  | 16,100  | 10,147  |
| Travel   | 21,948   | 52,819   | 107,239   | 101,570   |
|  | 965,821  | 829,065  | 2,705,832   | 2,458,660   |
| <b>LOSS FROM OPERATIONS</b>                        | \$ (555,489)                                       | \$ (651,721)                                       | \$ (1,867,221)                                    | \$ (1,533,016)                                    |
| <b>OTHER INCOME AND EXPENSES</b>                   |  |  |   |   |
| Interest and other Income                          | 13,937   | 7,872  | 37,801  | 19,758  |
| Gain (loss) on sale of assets                      | 145,260  | (443)  | 64,588  | 112,950   |
| Foreign exchange                                   | (227)  | 539  | (1,342)   | 927   |
|  | 158,970  | 7,968  | 101,047   | 133,635   |
| <b>LOSS BEFORE INCOME TAX</b>                      | (396,519)  | (643,753)  | (1,766,174)                                       | (1,399,381)                                       |
| <b>NET LOSS FOR THE PERIOD</b>                     | \$ (396,519)                                       | \$ (643,753)                                       | \$ (1,766,174)                                    | \$ (1,399,381)                                    |
| <b>OTHER COMPREHENSIVE LOSS</b>                    |  |  |   |   |
| Foreign currency translation gain (loss)           | \$ (263,150)                                       | \$ 102,528   | \$ (839,906)                                      | \$ (330,547)                                      |
| <b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>       | \$ (659,669)                                       | \$ (541,225)                                       | \$ (2,606,080)                                    | \$ (1,729,928)                                    |
| <b>Total net loss attributable to:</b>             |  |  |   |   |
| Non-controlling interests                          | \$ (316,910)                                       | \$ (462,847)                                       | \$ (1,023,614)                                    | \$ (822,426)                                      |
| Equity holders of parent                           | (79,609)   | (180,906)  | (742,560)   | (576,955)   |
|  | \$ (396,519)                                       | \$ (643,753)                                       | \$ (1,766,174)                                    | \$ (1,399,381)                                    |
| <b>Total comprehensive (loss) attributable to:</b> |  |  |   |   |
| Non-controlling interests                          | \$ (40,422)  | \$ (488,335)                                       | \$ (198,878)                                      | \$ (426,789)                                      |
| Equity holders of parent                           | \$ (619,247)                                       | \$ (52,890)  | \$ (2,407,202)                                    | \$ (1,303,139)                                    |
|  | \$ (659,669)                                       | \$ (541,225)                                       | \$ (2,606,080)                                    | \$ (1,729,928)                                    |
| <b>Loss per share - basic and diluted</b>          | \$ (0.01)  | \$ (0.01)  | \$ (0.02)   | \$ (0.02)   |

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

**Diamcor Mining Inc.**  
**Consolidated Statements Of Cash Flows**

|  | For the<br>three months ended<br>December 31, 2015 | For the<br>three months ended<br>December 31, 2014 | For the<br>nine months ended<br>December 31, 2015 | For the<br>nine months ended<br>December 31, 2014 |
|--|--|--|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |  |  |   |   |
| Net loss for the period  | \$ (396,519)                                       | \$ (643,753)                                       | \$ (1,766,174)                                    | \$ (1,399,381)                                    |
| <b>Items not affecting cash</b>                                      |  |  |   |   |
| Accretion and depreciation (Note 3 & 6)                              | 215,149  | 229,316  | 693,058   | 684,040   |
| Stock-based compensation (Note 7)                                    | 71,000   | -  | 91,500  | -   |
| Sale of property, plant and equipment                                | (145,260)  | -  | (64,588)  | -   |
| Sale of So Ver Mine (pty) Ltd  | (326,158)  | -  | (326,158)   | -   |
| Interest on long term debt   | 190,711  | 170,979  | 561,034   | 514,272   |
| <b>Changes in non-cash working capital</b>                           |  |  |   |   |
| Accounts payable   | (178,344)  | (131,232)  | (201,459)   | (859,246)   |
| Accounts receivable  | 609,367  | (11,993)   | 111,499   | 192,868   |
| Inventory  | 95,726   | (66,980)   | (520,926)   | (57,794)  |
| Prepays  | (57,612)   | 16,305   | (32,928)  | 47,207  |
| Cash flow (used in) generated by operating activities                | 78,060   | (437,358)  | (1,455,142)                                       | (878,034)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |  |  |   |   |
| Proceeds from the disposal of property, plant and equipment (Note 3) | -  | -  | 420,462   | -   |
| Purchase of property, plant and equipment (Note 3)                   | 87,891   | (151,455)  | (614,210)   | (1,394,049)                                       |
| Cash flow (used in) generated by investing activities                | 87,891   | (151,455)  | (193,748)   | (1,394,049)                                       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                          |  |  |   |   |
| Repayment of long-term debt  | -  | (247,553)  | -   | (990,210)   |
| Proceeds from issuance of share capital net of issue costs (Note 7)  | -  | 2,907,381  | -   | 2,907,381   |
| Proceeds from the exercise of options (Note 7)                       | 9,500  | -  | 619,500   | 70,500  |
| Cash flow generated by financing activities                          | 9,500  | 2,659,828  | 619,500   | 1,987,671   |
| <b>Effect of change in exchange rate for cash</b>                    | (54,549)   | 25,920   | (113,870)   | (224,589)   |
| <b>(Decrease) Increase in cash and cash equivalents</b>              | 120,902  | 2,096,935  | (1,143,260)                                       | (509,001)   |
| Cash and cash equivalents - beginning of year                        | 1,244,868  | 1,274,176  | 2,509,030   | 3,880,112   |
| Cash and cash equivalents - end of period                            | \$ 1,365,770                                       | \$ 3,371,111                                       | \$ 1,365,770                                      | \$ 3,371,111                                      |

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

**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, 2014     | 19,379,886    | 7,902,484           | 1,446,593 | (23,560,651) | (1,932,155)                          | (1,594,017)               | 1,642,140                  |
| Private placement            | 2,216,698     | -                   | 916,902   | -            | -                                    | -                         | 3,133,600                  |
| Share issuance costs         | (226,219)     | -                   | -         | -            | -                                    | -                         | (226,219)                  |
| Exercise of options (Note 7) | 145,700       | (75,200)            | -         | -            | -                                    | -                         | 70,500                     |
| Net loss for the year        | -             | -                   | -         | (576,955)    | -                                    | (822,426)                 | (1,399,381)                |
| Other comprehensive loss     | -             | -                   | -         | -            | (726,182)                            | 395,635                   | (330,547)                  |
| Balance - December 31, 2014  | 21,516,065    | 7,827,284           | 2,363,495 | (24,137,606) | (2,658,337)                          | (2,020,808)               | 2,890,093                  |
| Balance - March 31 2015      | 21,500,397    | 7,827,284           | 2,363,495 | (25,498,744) | (2,216,933)                          | (2,491,763)               | 1,483,736                  |
| Exercise of options (Note 7) | 1,281,416     | (661,916)           | -         | -            | -                                    | -                         | 619,500                    |
| Issuance of options          | -             | 91,500              | -         | -            | -                                    | -                         | 91,500                     |
| Net loss for the year        | -             | -                   | -         | (742,560)    | -                                    | (1,023,614)               | (1,766,174)                |
| Other comprehensive loss     | -             | -                   | -         | -            | (1,664,642)                          | 824,736                   | (839,906)                  |
| Balance - December 31 2015   | 22,781,813    | 7,256,868           | 2,363,495 | (26,241,304) | (3,881,575)                          | (2,690,641)               | (411,344)                  |

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

# Diamcor Mining Inc.

## Notes to The Interim Consolidated Condensed Financial Statements

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

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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), together the "group"

These interim consolidated condensed financial statements were authorized for issuance by the Board of Directors on February 25, 2016. 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 Group 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 Group, 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 Group. 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 Group will move to full scale operations after completion of trial mining and bulk sampling.

The Directors have considered the: (i) base of investors and debt lenders historically available to the Group; (ii) global capital markets; (iii) sources of Group income; and (iv) cash generation and (v) debt amortization levels. Considering the above, Management and Directors are satisfied that the Group 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 interim consolidated condensed 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 interim consolidated condensed financial statements have been prepared on a historical cost basis. The interim consolidated condensed financial statements are presented in Canadian dollars.

These interim consolidated condensed financial statements, including comparatives, have been prepared in accordance with International Accounts Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with IFRS by the 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, 2015. In addition, certain disclosures that are required to be included in annual financial statements are not included in these interim. Therefore, these interim consolidated condensed financial statements should be read in conjunction with the aforementioned annual audited financial statements.

# Diamcor Mining Inc.

## Notes to The Interim Consolidated Condensed Financial Statements

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

### 2.1. Basis of consolidation

The interim consolidated condensed financial statements comprise the financial statements of the Group as at December 31, 2015. Subsidiaries are fully consolidated. The financial statements of the subsidiaries are prepared for the same reporting period as the Group, 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 Group's subsidiaries as at December 31, 2015 are as follows:

| Name                                 | Place of Incorporation | Interest | Operations | Functional Currency |
|--------------------------------------|------------------------|----------|------------|---------------------|
| DMI Diamonds South Africa (Pty) Ltd. | South Africa           | 100%     | Active     | South African Rand  |
| DMI Minerals South Africa (Pty) Ltd. | South Africa           | 70%      | Active     | South African 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.

### 2.2 Significant accounting judgments, estimates and assumptions

The preparation of the Group's interim consolidated condensed 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 interim consolidated condensed 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 interim consolidated condensed 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 Group 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 Group anticipates a final decision to move to full scale mining and commercial levels of operations in 2016/17 after performing an evaluation of certain economic factors.

#### ***Mining Property***

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 Group 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.

#### ***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 does not currently have any diamond reserves. 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 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 Interim Consolidated Condensed Financial Statements

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

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

At each reporting period the Group assesses each cash generating unit 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 2015 and March 31, 2015, there were no indicators of impairment based on the following factors:

- a. The mining rights are not expected to expire in the near term;
- b. The Group is continuing with further advancement and development of the project 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, although the economic viability of such mineral resources has not yet been assessed

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

Judgment is required in determining whether deferred tax assets are recognized on the interim consolidated condensed 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 required 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 estimated future obligations and in return, profit or loss, and in the case of the decommissioning liability, property, plant and equipment balances.

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

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

Cash and cash equivalents in the interim consolidated condensed 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 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, 2015, there was \$663,245 (March 31 2015 - \$142,319) 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, and mining rights until the commencement of commercial production. All assets included in exploration and evaluation assets have been transferred to property, plant and equipment. Capitalized expenditures are not depreciated until the assets are ready for their intended use and after sustainable production levels have been achieved.

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. Exploration and evaluation assets are assessed for impairment upon the transfer to property, plant and equipment.

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

Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the 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. When a mine construction project moves into the production stage, the capitalization of certain



# Diamcor Mining Inc.

## Notes to The Interim Consolidated Condensed Financial Statements

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

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      |
| - Mineral properties     | Unit of production        |

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 inflows that are independent from other assets, the recoverable amount of the cash generating unit ("CGU") to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mining assets, fair value less cost to sell is often estimated using a discounted cash flow approach as a fair value from an active market or 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 in profit or loss immediately.

### **Decommissioning liability**

The Group assesses its decommissioning liability each reporting period. 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 interim consolidated condensed 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

# Diamcor Mining Inc.

## Notes to The Interim Consolidated Condensed Financial Statements

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

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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 are expensed as incurred.

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

The interim consolidated condensed financial statements are presented in Canadian dollars, which is the 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 into the presentation currency at the rate of exchange ruling at the reporting date. Differences arising on translation from the reporting date are recognized as other comprehensive 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 or 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 interim consolidated condensed 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 instruments are classified as at fair value through profit or loss, loans and receivables, held-to-maturity, available-for-sale, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial instruments at initial recognition. All financial instruments 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.

### ***Subsequent measurement***

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

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

Financial instruments at fair value through profit or loss include financial instruments held for trading and financial instruments designated upon initial recognition at fair value through profit or loss. Financial instruments are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial instruments at fair value through profit or loss are carried in the interim consolidated condensed 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. Instruments in this category include cash and cash equivalents and restricted cash

#### ***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.

# Diamcor Mining Inc.

## Notes to The Interim Consolidated Condensed Financial Statements

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

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### **Other financial liabilities**

Other financial liabilities are subsequently measured at amortized cost using the EIR method, with interest expense recognized on an effective yield basis. The Group's other 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 Group are recorded at the proceeds received, net of direct issue costs.

### **Income taxes**

Income tax expense comprises current income tax and deferred tax. Income tax is recognized in the interim consolidated condensed 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 interim consolidated condensed 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 Group'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 Interim Consolidated Condensed Financial Statements

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

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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.

### ***Assets held for sale***

Certain property, plant and equipment have been listed for sale and reclassified as assets held for sale on the interim consolidated condensed statement of financial position. These assets are expected to be sold within a twelve-month period. Assets held for sale are valued at the lower of carrying value and fair value less cost of disposal.

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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. The Group intends to adopt those standards when they become effective. The Group has yet to assess the full impact of these standards.

- IFRS 15, "Revenue from contracts with customers", replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group has not yet assessed the impact of the new standard.
- IFRS 9, "Financial Instruments", addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Group has not yet assessed the impact of the new standard.
- In May 2014, the IASB issued amendments to International Accounting Standard 16, Property, plant and equipment ("IAS 16") The amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively. The amendments clarify the factors in assessing the technical or commercial obsolescence and the resulting depreciation period of an asset and state depreciation method based on revenue is not appropriate. Management intends to adopt the amendments to IAS 16 in its financial statements for the annual period beginning January 1, 2016. The extent of the impact of adoption of the amendments to IAS 16 have not yet been determined

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

**3. Property, Plant and Equipment**

|   | <i>Plant and<br/>Equipment</i> | <i>Motor<br/>Vehicles</i> | <i>Office<br/>Equipment</i> | <i>Computers</i> | <i>Leaseholds</i> | <b>Total \$</b>  |
|---|--------------------------------|---------------------------|-----------------------------|------------------|-------------------|------------------|
| <b>Cost</b>                                     |                                |                           |                             |                  |                   |                  |
| <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> |
| Transfer from exploration and evaluation assets | 3,490,844                      | -                         | -                           | -                | -                 | 3,490,844        |
| Additions                                       | 1,038,604                      | -                         | 44,956                      | 5,792            | -                 | 1,089,352        |
| Disposals                                       | (363,138)                      | -                         | -                           | -                | -                 | (363,138)        |
| Translation adjustments                         | (37,637)                       | (556)                     | (74)                        | (40)             | -                 | (38,307)         |
| <b>Balance, March 31, 2015</b>                  | <b>9,675,842</b>               | <b>116,170</b>            | <b>92,143</b>               | <b>66,754</b>    | <b>33,090</b>     | <b>9,983,999</b> |
| Additions                                       | 480,646                        | 132,328                   | 1,236                       | -                | -                 | 614,210          |
| Disposals                                       | (756,577)                      | -                         | -                           | -                | -                 | (756,577)        |
| Translation adjustments                         | (1,270,439)                    | (16,719)                  | (9,937)                     | (310)            | -                 | (1,297,405)      |
| <b>Balance, December 31, 2015</b>               | <b>8,129,472</b>               | <b>231,779</b>            | <b>83,442</b>               | <b>66,444</b>    | <b>33,090</b>     | <b>8,544,227</b> |
| <b>Accumulated Depreciation</b>                 |                                |                           |                             |                  |                   |                  |
| <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                                    | 879,896                        | 25,229                    | 9,102                       | 4,063            | -                 | 918,290          |
| Disposals                                       | (149,794)                      | -                         | -                           | -                | -                 | (149,794)        |
| Translation adjustments                         | 9,222                          | 97                        | 108                         | 7                | -                 | 9,434            |
| <b>Balance, March 31, 2015</b>                  | <b>1,858,255</b>               | <b>92,578</b>             | <b>40,500</b>               | <b>53,665</b>    | <b>33,090</b>     | <b>2,078,088</b> |
| Depreciation                                    | 652,157                        | 22,374                    | 5,631                       | 2,728            | -                 | 682,890          |
| Disposals                                       | (264,802)                      | -                         | -                           | -                | -                 | (264,802)        |
| Translation adjustments                         | (329,516)                      | (15,454)                  | (2,351)                     | (541)            | -                 | (347,862)        |
| <b>Balance, December 31, 2015</b>               | <b>1,916,094</b>               | <b>99,498</b>             | <b>43,780</b>               | <b>55,852</b>    | <b>33,090</b>     | <b>2,148,314</b> |
| <b>Net book value, March 31, 2015</b>           | <b>7,817,587</b>               | <b>23,592</b>             | <b>51,643</b>               | <b>13,089</b>    | <b>-</b>          | <b>7,905,911</b> |
| <b>Net book value, December 31, 2015</b>        | <b>6,213,378</b>               | <b>132,281</b>            | <b>39,662</b>               | <b>10,592</b>    | <b>-</b>          | <b>6,395,913</b> |

**4. 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:

| <b>Costs</b>                      | <b>\$</b>     |
|-----------------------------------|---------------|
| <b>Balance, March 31, 2014</b>    | <b>28,238</b> |
| Translation adjustments           | (134)         |
| <b>Balance, March 31, 2015</b>    | <b>28,104</b> |
| Sale of So Ver Mine (Pty) Ltd     | (28,104)      |
| <b>Balance, December 31, 2015</b> | <b>-</b>      |

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

**5. Long-Term Debt and Due to Nozala Investments**

***Long-term debt***

Long-term debt consists of the following:

|                                       | <b>December 31, 2015</b> | <b>March 31, 2015</b> |
|---------------------------------------|--------------------------|-----------------------|
| Term loan 1 (a)                       | 2,070,587                | 1,940,419             |
| Term loan 2 (b)                       | 3,139,044                | 2,941,706             |
| Convertible debenture 2 (c)           | 2,092,696                | 1,961,138             |
| Total debt including accrued interest | 7,302,327                | 6,843,263             |
| Less: current portion due in one year | 1,894,387                | 908,513               |
| Long-term portion                     | 5,407,940                | 5,934,750             |

- a) Term loan 1 was issued in March 2011, bore interest at an annual fixed rate of 7% and had a 5-year term with payments commencing in April 2013. On December 1, 2014, the Group and Tiffany & Co. agreed to defer any remaining payments on the loan until January 2016. Additionally, the interest rate on the loan will be increased to 9%, at which time the principal and interest is payable monthly at \$136,832 in accordance with a 16-month amortization schedule. The Group 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) Term loan 2 was issued in November 2012, bears interest at an annual fixed rate of 9% and had a 5-year term with payments expected to start in January 2014. On February 4, 2014 and again on December 31, 2014, the Group and Tiffany & Co. agreed to defer any payments on the \$2,400,000 term loan until January 2016. This loan is secured by a promissory note until January 2016, at which time principal and interest is payable monthly at \$99,603 in accordance with a 36-month amortization schedule. The Group has the right to repay the outstanding principal and any accrued and unpaid interest under this loan at any time without notice or penalty.
- c) Convertible debenture 2 was issued in November 2012, bears interest at an annual fixed rate of 9% and had a 5-year term. On February 4, 2014 and again on December 1, 2014 the Group and Tiffany & Co. agreed to defer any payments on the \$1,600,000 convertible debenture until January 2016. The Group will be required to make blended monthly payments of \$66,402 commencing in January 2016. The principal amount and accrued interest is convertible by the holder into common voting shares of the Group at \$1.60 per share. The value attributed to the equity conversion option was nil. The Group 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 2 are secured by a general security agreement which states the loans are secured by 100% of the general assets of the Group.

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

|           |           |
|-----------|-----------|
| 2016-2017 | 2,841,580 |
| 2017-2018 | 3,072,047 |
| 2018-2019 | 2,068,630 |
| 2019-2020 | 517,158   |

***Due to Nozala Investments***

The amount due to Nozala Investments of \$1,040,472 CAD (March 31, 2015 - \$1,107,620 CAD, carries a floating interest rate of 12.75% (South African prime plus 3%), 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, 2015 or the year ended March 31, 2015.

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

**6. Decommissioning Liability**

The total decommissioning liability was based on the Group's estimated costs to reclaim and abandon the mines and facilities. The Group 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. The Group has estimated the net present value of the decommissioning obligation to be \$196,378 (March 31, 2015 - \$591,757) based on an undiscounted total future liability of \$331,138. The decommissioning liability was based on using an inflation rate of 4.50%. The long-term portion of the liability was discounted using a risk free rate of 6.00%. These costs are expected to be incurred in approximately 10 years.

The continuity of the decommissioning as at December 31, 2015

|  | <b>December 31, 2015</b> | <b>March 31, 2015</b> |
|--|--------------------------|-----------------------|
| Balance, beginning of year                         | \$ 591,757               | \$ 487,420            |
| Change in estimate                                 | (3,297)                  | 118,051               |
| Accretion recorded during the year                 | 10,168                   | 23,798                |
| Sale of So-Ver Mine (pty) Ltd.                     | (374,589)                | -                     |
| Translation adjustment                             | (27,661)                 | (37,512)              |
|  | 196,378                  | 591,757               |
| Less: current portion of decommissioning liability | -                        | 369,053               |
|  | <b>\$ 196,378</b>        | <b>\$ 222,704</b>     |

**7. Share Capital**

|  | Number of Shares | Amount        |
|--|------------------|---------------|
| Authorized:                                  |                  |               |
| Unlimited common voting shares, no par value |                  |               |
| Issued:                                      |                  |               |
| Balance, March 31, 2014                      | 37,709,236       | \$ 19,379,886 |
| Exercise of options(a)(b)(c)                 | 235,000          | 145,700       |
| Private placement (d)                        | 3,133,600        | 2,216,698     |
| Share issuance costs                         | -                | (241,887)     |
| Balance, March 31, 2015                      | 41,077,836       | \$ 21,500,397 |
| Exercise of options (e)(f)(g)                | 2,058,333        | 1,281,416     |
| Balance, December 31, 2015                   | 43,136,169       | \$ 22,781,813 |

The weighted average number of shares outstanding for the period was 41,853,762 (38,659,442 in fiscal year 2014).

- a) 10,000 options were exercised at a price of \$0.30 by an employee of the Group on April 10<sup>th</sup>, 2014
- b) 125,000 options were exercised at a price of \$0.30 by a consultant of the Group on June 2<sup>nd</sup>, 2014
- c) 100,000 options were exercised at a price of \$0.30 by a Director of the Group on September 17<sup>th</sup>, 2014
- d) Private Placement on December 30, 2014 of 3,133,600 shares at a price of \$1.00 and 1,745,816 warrants at an exercise price of \$1.25 The warrants were assigned a value of \$916,902
- e) 100,000 options were exercised at a price of \$0.30 by a Director of the Group on May 19<sup>th</sup>, 2015

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

- f) 1,933,333 options were exercised at a price of \$0.30 by directors and officers of the group on May 26<sup>th</sup>, 2015  
g) 25,000 options were exercised at a price of \$0.38 by an employee of the Group on December 21<sup>th</sup>, 2015

**Warrants**

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

|                                | December 31, 2015  |                                 | March 31, 2015     |                                 |
|--------------------------------|--------------------|---------------------------------|--------------------|---------------------------------|
|                                | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 3,920,604          | \$ 1.54                         | 2,174,788          | \$ 1.78                         |
| Warrants issued                | -                  | -                               | 1,745,816          | \$ 1.25                         |
| Outstanding, end of period     | 3,920,604          | \$ 1.54                         | 3,920,604          | \$ 1.54                         |
| Exercisable, end of period     | 3,920,604          | \$ 1.54                         | 3,920,604          | \$ 1.54                         |

|                            | December 31, 2015 | March 31, 2015 |
|----------------------------|-------------------|----------------|
| Balance, beginning of year | \$ 2,363,495      | \$ 1,446,593   |
| Warrants issued            | -                 | 916,902        |
| Balance, end of period     | \$ 2,363,495      | \$ 2,363,495   |

There were no warrants issued in the period ended December 31, 2015. (1,745,816 March 31 2015). The warrant valuation was calculated using the Black-Scholes pricing model with the following assumptions: zero dividend yield, expected volatility of 74% and risk free rate of 1.07%. 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 Group's warrants.

The following warrants were outstanding at December 31, 2015:

| Number of warrants outstanding and exercisable | Exercise Price | Weighted average remaining life | Expiry date       |
|--|----------------|---------------------------------|-------------------|
| 817,038  | \$ 1.75        | .47                             | June 17, 2016     |
| 1,188,400                                      | \$ 1.80        | 1.20                            | March 11, 2017    |
| 169,350  | \$ 1.80        | 1.22                            | March 21, 2017    |
| 1,745,816                                      | \$ 1.25        | 2.00                            | December 30, 2017 |



**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

**Stock options**

The Group adopted a formal stock option plan in December 18, 2015 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 8,622,233 of its issued and outstanding common stock. Under the policy, the exercise price of each option is equal to the market price of the Group'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 2015  |                                 | March 31 2015     |                                 |
|--------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                | Number of options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 6,383,333         | \$ 0.77                         | 6,768,333         | \$ 0.77                         |
| Options expired                | (200,000)         | \$ 0.30                         | (150,000)         | \$ 1.50                         |
| Options cancelled              | (300,000)         | \$ 1.40                         | -                 | -                               |
| Options issued                 | 320,000           | \$ 1.18                         | -                 | -                               |
| Options exercised              | (2,058,333)       | \$ 0.30                         | (235,000)         | \$ 0.30                         |
| Outstanding, end of period     | 4,145,000         | \$ 1.00                         | 6,383,333         | \$ 0.77                         |
| Exercisable, end of period     | 4,145,000         | \$ 1.00                         | 6,383,333         | \$ 0.77                         |

The following stock options were outstanding at December 31, 2015:

| Number of options outstanding and exercisable | Exercise Price | Weighted average remaining life | Expiry date      |
|---|----------------|---------------------------------|------------------|
| 1,175,000                                     | \$0.38         | .28                             | April 8, 2016    |
| 100,000                                       | \$0.32         | .94                             | December 8, 2016 |
| 1,550,000                                     | \$1.25         | 2.60                            | August 6, 2018   |
| 1,000,000                                     | \$1.40         | 3.25                            | March 31, 2019   |
| 120,000                                       | \$1.35         | 2.29                            | April 15, 2018   |
| 100,000                                       | \$1.15         | 2.59                            | August 1, 2018   |
| 100,000                                       | \$1.00         | 4.83                            | November 1, 2020 |

The following stock options were outstanding at March 31, 2015:

| Number of options outstanding and exercisable | Exercise Price | Weighted average remaining life | Expiry date      |
|---|----------------|---------------------------------|------------------|
| 2,233,333                                     | \$ 0.30        | .18                             | June 2, 2015     |
| 1,200,000                                     | \$0.38         | 1.03                            | April 8, 2016    |
| 100,000                                       | \$0.32         | 1.69                            | December 8, 2016 |
| 1,550,000                                     | \$1.25         | 3.35                            | August 6, 2018   |
| 1,300,000                                     | \$1.40         | 4.00                            | March 31, 2019   |

**Stock-based compensation**

The Group has recognized \$91,500 in stock-based compensation for the period ended December 31, 2015 (\$nil in fiscal year 2015) as the options vested immediately.

There were 320,000 options issued by the Group in the period ended December 31, 2015 (nil in fiscal year 2015). The option valuation in fiscal 2016 was calculated using an estimate of the value of the service provided by the option holder as required under IFRS. 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 Group's stock options.

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

**8. Contributed Surplus**

|                                   | \$               |
|-----------------------------------|------------------|
| <b>Balance, March 31, 2014</b>    | <b>7,902,484</b> |
| Exercise of options               | (75,200)         |
| <b>Balance, March 31, 2015</b>    | <b>7,827,284</b> |
| Issuance of options (note 7)      | 91,500           |
| Exercise of options (note 7)      | (661,916)        |
| <b>Balance, December 31, 2015</b> | <b>7,256,868</b> |

**9. Related Party Transactions**

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

|                         | December 31, 2015 | March 31, 2015 |
|-------------------------|-------------------|----------------|
| Salaries and consulting | \$461,000         | \$654,000      |
| Directors fees          | 60,000            | 68,000         |
| Performance bonuses     | -                 | 200,000        |

As at December 31, 2015, the Group owed \$200,000 (March 31, 2015 - \$313,582) to directors of the Group and companies controlled by a director.

These transactions were in the normal course of operations and are measured at fair value at initial recognition.

**10. Segmented Information**

The Group'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,<br>Plant and<br>Equipment | Cash and<br>Equivalents and<br>Restricted Cash | Other Assets      |
|--------------------------|----------------------|-------------------------------------|--|-------------------|
| <b>December 31, 2015</b> |                      |                                     |  |                   |
| Canada                   | \$ 273,803           | \$ 7,257                            | \$ 227,162                                     | \$ 39,384         |
| South Africa             | 8,347,832            | 6,388,656                           | 1,138,608                                      | 820,568           |
|                          | <b>\$ 8,621,635</b>  | <b>\$ 6,395,913</b>                 | <b>\$ 1,365,770</b>                            | <b>\$ 859,952</b> |
| <b>March 31, 2015</b>    |                      |                                     |  |                   |
| Canada                   | \$ 1,425,124         | \$ 9,765                            | \$ 1,326,761                                   | \$ 88,598         |
| South Africa             | 9,459,142            | 7,896,146                           | 1,182,269                                      | 380,727           |
|                          | <b>\$ 10,884,266</b> | <b>\$ 7,905,911</b>                 | <b>\$ 2,509,030</b>                            | <b>\$ 469,325</b> |

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

**11. 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 Group 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 Group's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, amounts due to Nozala Investments and long-term debt. The fair value of cash and cash equivalents and restricted cash, accounts receivable and accounts payable approximate their carrying values due to the short term maturities of these items. The fair value of the Nozala Investments loan approximates its carrying value as the debt rate floats with prime. The fair value of the long-term debt approximates its carrying value as the interest rate is a market rate for similar instrument

The Group's cash and cash equivalents have been assessed on the fair value hierarchy described above; cash and cash equivalents and restricted cash are classified as Level 1.

***Financial risks***

The Group'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, cash and cash equivalents and restricted cash. 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, cash equivalents and restricted 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 of these accounts receivable.

The accounts receivable ageing amounts are as follows:

|                                     |                 |
|-------------------------------------|-----------------|
| 0-30 days past due but not impaired | \$77,766        |
| 90 days past due                    | -               |
| 120+ days past due but not impaired | -               |
| <b>Total</b>                        | <b>\$77,766</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 3%. A 1% change in the South African prime rate would result in interest expense changing by approximately \$11,500.

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

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 Group'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 Group's subsidiaries to the Group's reporting currency. The Group's monetary assets and liabilities denominated in South African Rand include:

|   | <b>December 31, 2015</b> | <b>March 31, 2015</b> |
|---|--------------------------|-----------------------|
| Cash and cash equivalents and restricted cash | \$1,138,608              | \$1,182,269           |
| Accounts receivable                           | 77,766                   | 118,753               |
| Prepays                                       | 79,557                   | 39,823                |
| Rehabilitation trust fund                     | -                        | 28,104                |
| Accounts payable                              | 455,267                  | 225,493               |
| Long-term debt                                | 1,040,472                | 1,107,620             |

A 5% change in the South African Rand would result in loss and other comprehensive loss changing by approximately \$100,000.

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 \$2,368,248 are payable within one year. The Group 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) can be financed from existing cash, issuing equity, cash flow provided by operating activities, existing bank loans and by acquiring new project loans.

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2015 based on contractual undiscounted payments:

|                  | <b>Current</b>     | <b>Fiscal 2017</b> | <b>Fiscal 2018</b> | <b>Fiscal 2019</b> | <b>Fiscal 2020</b> |
|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Accounts payable | 473,861            | -                  | -                  | -                  | -                  |
| Long-term debt   | 1,894,387          | 2,841,580          | 3,072,047          | 2,068,630          | 517,158            |
|                  | <b>\$2,368,248</b> | <b>\$2,841,580</b> | <b>\$3,072,047</b> | <b>\$2,068,630</b> | <b>\$517,158</b>   |

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

**12. 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>December 31, 2015</b> | <b>March 31, 2015</b> |
|----------------------|--------------------------|-----------------------|
| Working capital      | (514,072)                | 793,989               |
| Long-term debt       | 6,448,412                | 7,042,370             |
| Shareholders' equity | (411,344)                | 1,483,736             |

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

**13. 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.

**14. Sale of Property**

In the period ended December 31, 2015 the Group complete the sale of So Ver Mine (Pty) Ltd. As a result of the completion of the sale the group recognized a gain on sale of assets of \$143,403 and bad debt expense of \$102,212 resulting from the uncollectability of certain So Ver Min (pty) Ltd. loans

Due to certain covenants not being met at the reporting date of March 31, 2015, \$162,628 was recorded as deferred income.

**15. Accounts Payable**

Trade and other payables consist of the following components:

|                     | <b>December 31, 2015</b> | <b>March 31, 2015</b> |
|---------------------|--------------------------|-----------------------|
| Trade Payables      | 255,046                  | 326,893               |
| Salary and benefits | 218,815                  | 345,075               |
|                     | 473,861                  | 671,968               |

Trade payables are non-interest bearing and are normally settled on 30 day terms.

**Diamcor Mining Inc.**  
**Notes to The Interim Consolidated Condensed Financial Statements**

*For the nine months ended December 31, 2015 and year ended March 31, 2015*

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**16. Restricted Cash**

These amounts are encumbered by a guarantee by Standard Bank of South Africa Limited for certain rehabilitation obligations and electrical guarantees. The encumbered amount as at December 31 2015 was \$371,546 (March 31, 2015 \$466,144).

**17. Subsequent Events**

On January 20, 2016 the group and Tiffany & Co. Canada have agreed to payment deferrals and maturity date extension in respect of its loan and convertible debenture financings with the Company for a period of six months. The arrangement is subject to the finalization and execution of amended documentation whereby interest will continue to accrue on the outstanding balances of the financing facilities during this period, with payments of both principal and interest to commence again on July 20, 2016.

On February 10, 2016, 1,065,789 options were exercised at the price of \$0.38 by directors and officers of the group.