



## **Management Discussion & Analysis**

**For the Fiscal Year Ended  
March 31, 2014**

# **DIAMCOR MINING INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED MARCH 31, 2014**

Management's discussion and analysis ("MD&A") focuses on significant factors and the operating results and financial position of Diamcor Mining Inc. ("Diamcor" or the "the Company") and its subsidiaries. In order to better understand the MD&A, it should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended March 31, 2014, and the MD&A and audited consolidated financial statements for the year ended March 31, 2014. The effective date of this MD&A is July 29, 2014.

The audited consolidated year ended March 31, 2014 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise specified, all financial information is presented in Canadian dollars.

Some of the statements in this MD&A are forward-looking statements that are subject to risk factors set out in the cautionary notes contained herein.

Additional information about the Company and its business activities is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.diamcormining.com](http://www.diamcormining.com).

## HIGHLIGHTS

### Corporate

- ▽ **Canadian junior diamond mining company trading in Canada on the TSX Venture Exchange trading under the symbol V.DMI, and in the USA on the OTC market OTCQX International tier under the symbol DMIFF.**
  
- ▽ **Experienced operator and supplier of rough diamonds to the world market with operations in South Africa for over 10 years, strong industry knowledge and relationships, and a quality project which provides a compelling near-term opportunity and the potential for future growth.**
  
- ▽ **Long-Term strategic alliance and financing with world famous New York based Tiffany & Co. On April 8, 2013 the Company announced the conversion of principal and accrued interest from the initial convertible debenture provided by Tiffany & Co into 3,061,227 common shares of the Company.**
  
- ▽ **Successful acquisition of Krone-Endora at Venetia project from DeBeers – directly adjacent to DeBeers’ flagship Venetia Diamond Mine – deposits identified as being the result of the direct shift and the subsequent erosion of materials from the higher grounds of the Venetia kimberlites onto the lower areas surrounding Venetia including those areas of Krone and Endora.**
  
- ▽ **Extensive development at Krone-Endora at Venetia project with vast majority of infrastructure now in place including: water pipelines, main power lines, 600TPH in-field dry-screening plant, 150TPH modular processing treatment plant, Volvo heavy equipment, security fencing, and various other items aimed at supporting long-term objectives.**
  
- ▽ **Ongoing commissioning and testing exercises have resulted in the incidental recovery and sale of approximately 20, 000+ carats of diamonds as of March 31, 2014. Continuing efforts specifically designed to support continued trial mining, additional bulk sampling, and transition to 24/7 operations upon receipt of full Mining Right from the South African Department of Mineral Resources.**
  
- ▽ **One of the few companies with the potential to supply rough diamonds to the world market at a critical time, with a compelling industry rough diamond supply/demand scenario unfolding, and price increases widely predicted by industry experts for the coming years.**
  
- ▽ **Attractive capital structure with 37.8M shares issued and outstanding – 46.5M fully diluted.**

## HIGHLIGHTS

### Krone-Endora at Venetia Project

- ∇ On February 28, 2011, the Company announced the successful closing of the acquisition of the Krone-Endora at Venetia project from DeBeers Consolidated Mines Limited. The Company previously announced that as part of the transparent request for proposal undertaken by DeBeers, the Company's proposal was chosen as the successful bid to acquire and advance the project. The transaction was aimed at achieving the stated goals of supporting the advancement of junior mining and women in mining in South Africa through the divestiture of quality non-core assets to suitable candidates with proven operational experience and BEE involvement at participation levels which exceed the current mandate.
  
- ∇ The Krone-Endora at Venetia project covers an area of 5,888 hectares located directly adjacent to DeBeers' flagship Venetia Diamond Mine. DeBeers completed various drilling programmes, bulk sampling, and an internal mineral resource estimate document, the basis of which was used to file an initial NI43-101 Technical Report as part of the acquisition process. The deposits located on the project have been identified as being the result of the direct shift and subsequent erosion of material from the adjacent higher grounds of the Venetia kimberlites to the lower surrounding areas including those of both Krone and Endora.
  
- ∇ The Company commenced operations to advance the Krone-Endora at Venetia project shortly after the closing of the acquisition, and to date, has successfully completed the procurement, delivery, and construction of the vast majority of the extensive infrastructure required to support the continued advancement of the project as envisioned for the long-term.
  
- ∇ Significant infrastructure completed to date includes the: construction of +/- 10km of primary access roads for the project, preparation and completion of an initial recommended drilling programme on ~558 targets covering an area of ~400ha, establishment and installation of +/- 4km of security fencing, construction of both an in-field dry screening plant and a treatment plant, construction of offices, installation of lined water dams, design and installation of +/-14km of water pipelines, procurement and installation of +/-13km of power lines, procurement and installation of backup standby generator power, purchase and deployment of various pieces of Volvo operational equipment, and the completion of other general infrastructure requirements.
  
- ∇ These developments are designed to support the recommended work programmes, the continued advancement of bulk sampling and trial mining exercises, the Company's planned near-term move to 24/7 operations subsequent to the granting of a Mining Right from the South African Department of Mineral Resources, the preparation and filing of an updated NI43-101 Technical Report for the project, and to aid the Company in both its initial and final production decisions for the project.
  
- ∇ As a result of the ongoing development and testing and commissioning exercises completed to March 31, 2014 at the project, the Company has reported the incidental recovery and sale of 19,807.25 carats of rough diamonds generating \$4,544,420.00 (US), or \$229.43 (US) per carat on average, from these exercises, with the largest individual rough diamond recovered to date being recorded at 91.7 carats.

## **INTRODUCTION**

Diamcor Mining Inc. (“Diamcor” or the “Company”) is a junior mining and exploration company incorporated in the Province of British Columbia under the Business Corporations Act (BC) with an established operational history of supplying rough diamonds to the world market. The Company pursues diamond related properties in South Africa and other diamond producing countries. Diamcor is currently developing and advancing its Krone-Endora at Venetia project in South Africa. The Company’s common shares trade on the TSX Venture Exchange under the symbol “V.DMI”, and on the OTCQX International tier in the United States under the symbol “DMIFF”.

Diamcor’s principal business is the identification, acquisition, exploration, evaluation, operation, and development of unique diamond based resource properties with a specific focus on the mining segment of the diamond industry. The Company acquired the Krone-Endora at Venetia project from DeBeers and has established a long-term strategic alliance with and secured attractive financing from, world famous luxury retailer Tiffany & Co. The Company’s strategy is to be a producer and supplier of quality rough diamonds to reputable diamond purchasing entities serving the global diamond market.

## **CORE BUSINESS AND STRATEGY**

Diamcor has, an established operating history in South Africa, key strategic relationships within the diamond industry in the Republic of South Africa, Canada, China, Brazil and the United States, extensive knowledge of diamond mining opportunities, and is developing the Krone-Endora at Venetia project. The Company’s strategy is to identify, evaluate, acquire, and develop various types of diamond related properties, with a specific focus on opportunities which demonstrate the potential to generate near-term and sustained rough diamond production and positive cash flow while minimizing shareholder dilution.

The Company aimed to advance this strategy through the closing of the acquisition of the Krone-Endora at Venetia project from De Beers Consolidated Mines Limited on February 28, 2011. The Krone-Endora at Venetia project consists of the prospecting rights over the farms Krone 104MS and Endora 66MS, which represent a combined surface area of approximately 5,888 hectares directly adjacent to De Beer’s flagship Venetia Diamond Mine in South Africa. The deposits which occur on the properties of Krone and Endora have been identified as both, an upper “eluvial” deposit, as well as a lower / basal “alluvial” deposit, both of which are proposed to have originated from the higher grounds of the adjacent Venetia kimberlites, with the full extent to which these deposits occur on the project yet to be determined. De Beers previously completed exploration efforts on an initial area of interest comprised of approximately 310 hectares of the properties, the results of which were reported in an initial Independent National Instrument 43-101 Technical Report (the “Technical Report”) which was filed by the Company on July 30, 2009. Based on the initial work completed to date, the Technical Report provided an initial inferred resource estimate of 54,258,600 tonnes of diamond bearing gravels, and 1.3 million carats of diamonds for the initial 310 hectare area of interest alone. The Technical Report also noted that based on the previous work programmes and evaluation completed to date by De Beers and the Company, an estimated 1,000m, or 1 vertical km, of material has shifted and eroded off of the kimberlites of Venetia onto the lower surrounding areas including those of Krone and Endora, but the extent to which this material may be present on the Krone and Endora properties currently is unknown. The Company’s near-term efforts will focus on the key areas of interest defined by the previous work and estimates outlined in the NI 43-101 Technical Report filed in 2009, specifically those within the defined K1 area of the project, the advancement of the recommended work programmes for the project, and subsequent trial mining and bulk sampling to better define the location and extent of the materials on both the Krone and Endora properties. From this work, the Company aims to secure data to allow it to arrive at final long-term production decisions for the Project.

In addition to the advancement of the Krone-Endora at Venetia project, the Company continues to review and pursue mining opportunities in South Africa and in other known diamond mining regions. The Company believes its strategy will allow it to take advantage of the recent trend of increasing rough diamond prices which industry experts believe will continue in the coming years. These forecasted rough diamond price increases are a function of projected material shortfalls in future diamond production, the potential continued increase in customer demand in developing markets such as China and India, and restoration of demand in historically strong markets such as the United States. It is widely accepted and documented that many of the existing diamond mines in the world may be reaching the later stages of their expected life of mine, and the currently reduced rough diamond production levels when compared to recent years are expected to remain at best consistent, or potentially be further reduced in the future. This situation coupled with the fact that no large

new mines demonstrating an ability to meet projected future increasing demands have been identified in many years, and the fact that long lead times of 7 - 10+ years are typically associated with bringing any large new diamond mine into production, all combine to present a compelling opportunity for companies which can provide rough diamond production in the coming years. The Company believes it is well positioned to exploit this opportunity.

As part of the implementation of the Company's strategy and focus on projects which demonstrate a near-term potential for production, management classifies all projects it considers for evaluation and acquisition into three distinct diamond project categories, all of which have typical expectations with regard to lead times to production and their associated development costs. The Krone-Endora at Venetia project acquired by the Company from De Beers has been identified as a higher-grade alluvial deposit (material deposited by ephemeral streams) which is covered by a rare lower-grade eluvial deposit (direct shift of material through the action of gravity and rain wash) the nature of which is described in further detail below.

The three basic diamond project categories as defined by the Company when reviewing potential projects are - Primary Kimberlite Projects, Alluvial and Eluvial Projects, and Tailings Re-Treatment Projects. These project categories as defined by the Company are briefly explained as follows:

**Primary Kimberlite Projects** - The Company defines primary kimberlite projects as any diamond project which involves the exploration for, or open-pit / underground mining of, any new or existing kimberlite source, these areas being the primary source from which rough diamonds originate. Given the fact that in recent years it has proven very difficult to identify any new significant economical kimberlite sources of diamonds, the fact that associated long lead times of seven to ten years (or more) to production are typical of these projects, as is capitalization into the hundreds of millions of dollars, this is not a primary focus of the Company. The Company's initial involvement in such projects may occur should the Company acquire projects and then discover new kimberlite bodies of interest on those properties during its ongoing geological evaluation of a project. While not a primary focus of the Company, the Company does have the ability to perform initial exploration efforts to define the potential significance of such a find, after which it is anticipated any additional efforts would be considered as warranted.

**Alluvial and Eluvial Projects** - The Company defines both alluvial and eluvial projects as the exploration for, and mining of, near surface diamond bearing gravels. While the terms alluvial and eluvial sound similar, the two deposit types are distinctly different. Alluvial gravel deposits occur as a result of the pre-historic erosion of the top surface areas of primary kimberlite sources by ancient rivers which previously ran over them. The alluvial gravels, and any diamonds contained in these gravels which are eroded from the kimberlite tops, are typically transported downstream before finally settling in areas where these ancient rivers slowed, turned, and/or formed deposit areas. In these situations, the deposited / settled alluvial gravels and associated diamonds are typically found under varying layers of surface structure along graduating terraces in the various key settling areas over which these paleo-rivers once ran. Diamond bearing alluvial gravels typically produce gem quality stones as a direct result of the manner and distance by which they have been transported by the paleo-rivers from their originating sources since the washing or rolling effect of transporting the diamonds, sometimes great distances, tends to destroy the smaller lower quality stones during the process while polishing, rounding, and depositing the larger better quality stones into the various settlement areas. Unlike the capital intensive methods of recovering diamonds from a deep hard rock primary kimberlite source, the alluvial gravel recovery process is done via a simple strip mining and earth moving process using heavy equipment with no requirement for any underground work or associated infrastructure. Exploration of potential alluvial properties to locate diamond bearing gravels also involves less capital intensive methods allowing alluvial projects to be advanced towards production in a relatively short period of time. Given these relatively short timeframes, the Company's strategy includes the identification, exploration, and potential acquisition of larger new and existing alluvial projects which demonstrate the potential for economical grades and diamond quality in areas where successful alluvial operations currently exist.

Eluvial projects, while somewhat similar in nature to alluvial projects with regard to production requirements, are significantly more rare and unique due to the fact that their deposits occur immediately adjacent to a known primary source, and are created in a different manner. In the typical alluvial deposits described above, constant flowing pre-historic paleo-rivers slowly eroded away the gravel deposits and diamonds from the source and then transported them downstream to various collection or settlement points, sometimes hundreds of miles away from the source. In contrast to this constant erosion process, eluvial deposits are primarily the result of a gravitational movement, or shift, of material in conjunction with the subsequent erosion or weathering which forms the resulting accumulation or deposit directly adjacent to, or near, the primary source. Due to the fact that these deposits have not moved any significant distance, eluvial deposits also tend

to more closely mirror the characteristics of the primary source, with due consideration to the fact they are not as uniform in nature. These characteristics can provide for a more definitive understanding of the deposit in general, especially in circumstances where the primary source of origin is well understood. Eluvial deposits would also be expected to retain the same potential for larger diamonds to exist as an alluvial deposit but typically include the added benefit that the smaller diamonds are also retained, as opposed to being destroyed, due to the short-duration of the event causing the deposit, and the short distance the deposit has travelled from the originating source. As noted above, the Krone-Endora at Venetia project acquired from DeBeers by the Company has been identified as a proposed higher-grade lower/basal alluvial deposit which is covered by a lower-grade upper eluvial deposit. The project is located directly adjacent to the identified source of the deposits, that being De Beer's flagship Venetia Mine. Venetia is one of the world's most significant and well established diamond mines with previously published yearly production volume highs of approximately 9.0 million carats per year, and independent references noting a high percentage of diamonds recovered as being classified as gem quality. Venetia is noted to be the largest producing diamond mine in South Africa, the third largest diamond mine in the world, and information on the Venetia diamonds is very well known.

**Tailings Re-Treatment Projects** - The Company has experience and a proven track record in the mining and recovery of diamonds through the re-processing, or re-treatment of kimberlite tailings. Countries such as South Africa, and a select few other countries, have a long and extensive history of large kimberlite diamond mines dating back over 100 years. The age of these mines presents an opportunity for newer and more modern processing and recovery methods to be implemented to reprocess vast stockpiles of previously processed tailings materials. Several of these historical mines worked and recovered many millions of tons of diamondiferous kimberlite material from open pit and deep underground mining operations for many years, and are recognized as some of the most famous diamond producing mines in the world. The ability to use newer and more efficient processing plants and methods to re-process stockpiled kimberlite tailings from these mines to recover the remaining diamonds missed years ago due to inefficient processing can present a significant opportunity in certain cases. These large above-ground tailings stockpiles can be quantified, graded, and valued to produce reasonably reliable modeling of processing costs and expected revenues. Given its experience in this area, the Company sees this method of diamond mining as an opportunity to potentially establish further stable sources of long-term rough diamond production and revenue, and thus it remains a focus of the Company.

## **KEY PERFORMANCE DRIVERS AND RECENT EVENTS**

The primary performance drivers for the Company are the identification and acquisition of projects which demonstrate potential for near-term diamond production with low costs and high diamond yields, the successful transition of these projects to full scale production, the current and future rough diamond market prices as a function of the predicted inability of the world's current diamond producing mines to meet future world-wide demand, and the establishment of strategic relationships with reputable purchasing entities of rough diamonds serving the global markets - particularly the emerging markets.

Trade publications and industry experts widely reported a trend of steadily increasing rough diamond prices into the early part of 2008. During that period, demand continued to grow and experts predicted that demand would soon exceed available supply due to the fact existing sources were reaching the later stages of their project lives. Additionally, no new large kimberlite discoveries have been made for many years which demonstrate the ability to supply the projected increases in demand. This predicted shortfall in supply is generally expected to last for the foreseeable future, with the result largely being a continued increase in rough diamond prices. The onset of the global financial crisis in 2008 and 2009 had a profound effect on the world economy including the diamond market. At that time, analysts, industry experts, and trade publications reported a softening of diamond prices and short-term demand. Despite the expected decline in the United States market, industry experts anticipated increasing demand in the future from the vast emerging markets of China, India, and the Middle East. As of mid-2009 rough diamond prices began to recover, and by early 2010 that recovery began to approach, and by some reports exceed, the previous all-time highs experienced in 2008 prior to the global financial crisis. This trend of steadily increasing rough diamond prices has largely continued, and by the mid part of 2011, various sources were reporting rough diamonds prices in excess of the 2008 pre-crisis highs. These highs have been followed by some periods of weakening of prices as an estimated result of overall market instability; however industry experts widely reported that the trend continued in increases of rough diamond prices as a whole, and this trend is expected to continue due to the various pre-financial crisis factors previously outlined, all of which remain relevant today. Readers are cautioned that any significant and sustained decrease in the market prices for rough diamonds could have a material adverse effect on the Company's performance and results from operations.

As of March 31, 2014 the Company's principal assets were the following: (i) a 70% majority interest in DMI Minerals South Africa (Pty) Ltd., which the Company used to acquire the Krone-Endora at Venetia project from De Beers Consolidated Mines Limited, (ii) a 100% interest in DMI Diamonds South Africa (Pty) Ltd., an entity which serves as the Company's main corporate entity to support its South African projects, operations, initial exploration efforts, and the initial evaluation of all future projects, (iii) an 85% interest in So Ver Mine (Pty) Ltd., a private South African company which owns the land and mining rights (subject to the completion of the pending sale transaction) to an area on which it previously operated a diamond tailings processing operation near the town of Kimberley, South Africa. Below are brief descriptions of each of these assets, and their current status.

**DMI Minerals South Africa (Pty) Limited** – The Company owns a 70% majority interest in DMI Minerals South Africa (Pty) Ltd. (“DMI Minerals”) with the remaining 30% interest held by the Company's well-established South African Black Economic Empowerment partner Nozala Investments (Pty) Ltd. (“Nozala”). The subsidiary was formed to be used for the acquisition of projects which demonstrated the potential for both near-term production capabilities, and suitable life of mine scenarios. On May 26, 2008 DMI Minerals received confirmation from De Beers that its competitive proposal to acquire the Krone-Endora at Venetia project had been approved as the successful bid pending finalization of a definitive sale of assets agreement. On December 22, 2008 the parties to the transaction completed and executed a definitive sale of assets agreement, and then subsequently on March 31, 2010, executed an amended and updated version of the original sale of assets agreement. Under the terms of the original sale of assets agreement the entire area associated with the Endora 66MS property prospecting right was to be transferred, along with an agreed upon portion of the entire area of Krone 104MS property prospecting right subject to an amendment to exclude certain areas inside the current De Beers Venetia Mine fence line. After giving due consideration to the proposed area of the Krone 104MS property in question for exclusion, De Beers subsequently agreed to transfer the entire area of Krone 104MS without any amendment or subdivision as part of the transaction. There were no other material changes to the agreement. This amendment allowed the Company to review additional areas of interest between those areas previously identified in the initial NI43-101 report released and the proposed source of the deposits origin, that being the kimberlite pipes of De Beers Venetia mine. The transaction was finalized on December 14, 2010, and on February 28, 2011 the acquisition of the Krone-Endora at Venetia project was closed.

Following the closing of the Krone-Endora at Venetia project acquisition on March 23, 2011, the Company, in conjunction with its subsidiary DMI Minerals, entered into a long-term strategic alliance and financing agreement with subsidiaries of New York based Tiffany & Co. Under the terms of the strategic agreement, Tiffany & Co., through their diamond sourcing and polishing subsidiary, Laurelton Diamonds South Africa (Proprietary) Limited, secured a first right of refusal to purchase up to 100% of the future production of rough diamonds from Krone-Endora at Venetia at fair market value prices to be negotiated and adjusted from time to time to reflect current market conditions. As part of the agreement, DMI Minerals retained the right to freely market all specials (rough diamonds 10.8 carats or larger in size), as well as all other diamond production which is not selected for purchase by Laurelton under the terms of their first right of refusal. To expedite the advancement of the project towards eventual production decisions and the potential supply of rough diamonds from the Krone-Endora at Venetia project, Tiffany and Co. provided the Company with an initial aggregate amount of \$5,500,000 in financing through its subsidiary Tiffany & Co. Canada. With this strategic financing closed, the Company began working immediately on advancing, developing and deploying the infrastructure to advance the project as quickly as possible.

The development of extensive infrastructure work began on the Krone-Endora at Venetia project in April of 2011, along with preparations for the start of an extended drilling programme, and future planned bulk sampling programme and trial mining exercises as recommended by the initial independent NI43-101 Technical Report filed by the Company on July 28, 2009. As part of the extended drilling programme, the Company initially planned to drill approximately 390 targets in two phases, however, as a result of ongoing efforts and the desire to gain additional information, the Company elected to expand the drilling programme, and subsequently completed the drilling of 558 targets. This initial extended drilling and the combined recommended programmes being undertaken were designed to be a continuation of the work previously completed by De Beers; to assist the Company in its determination of the location and construction of infrastructure required to support the advancement of the project; to assist the Company in its determination of how best to proceed with the further evaluation of areas of the project previously explored; to assist the Company in identifying additional areas of interest which had not yet been accounted for in the current NI43-101 Technical Report for future exploration; to aid the Company in its future efforts to establish a current diamond price estimate for the project; to support the advancement of work programmes which collectively would support the planned filing of an updated independent NI 43-101 Technical

Report in the future; to support the Company's future bulk sampling and trial mining exercises; and to support the Company's planned transition to 24/7 operations subject to the required approvals from the South African Department of Mineral Resources. Collectively, all efforts and the result of these efforts are aimed at assisting the Company in ultimately arriving at final production decisions for the project.

By 2012, the majority of the initial site developments for the project were nearing completion, as were the initial deliveries of operational equipment and a new modular processing plant for the Project. The Company had also successfully completed the construction of an approximately 10km primary access roads to support the long-term needs of the project. The clearing of 60km of temporary access roads was also completed to support: the extended drilling programme; the Company's decisions on the establishment of remaining infrastructure; the identification of areas to be potentially targeted for additional bulk sampling and trial mining exercises, the location for the construction of the project's plant site; and the installation of approximately 4km of high strength, solar powered, electrical security fencing and gates around the areas chosen for future trial mining and the plant site. With these areas chosen, the Company proceeded with the removal of +/-4,000 truckloads of material for the establishment of a quarry in the area selected for future trial mining exercises and for use in the construction of the project's plant site. The clearing of ~2 hectares for the construction of the plant site was completed along with the construction of fresh water and settling dams, the completion of civil engineering works, and the construction of a 5m raised wall around the plant site. Extensive concrete work for the processing plant was completed, as was the delivery of final recovery units and associated offices and workshops. The Company completed the design and installation of three water pipelines totaling approximately 14km in total length, and the procurement and installation of approximately 13km of main and supporting power-lines to the project by August of 2013. The finalization of the power line was aimed at providing significant operational cost savings when compared to the large diesel generators previously serving the project, and with the installation of this main power line complete, the generators systems now provide the added benefit of standby back-up power for the project.

As of March 31, 2014 the Company had completed the vast majority of the final construction and installation of site infrastructure to support the further advancement of the project, the ongoing commissioning and testing exercises, and the final refinements to both the expanded quarrying and dry-screening plant, and the modular treatment plant to support the stated objectives and advancement of the project. Due to the nature of the deposit, and specifically its high percentage of sand content (or material >1.2mm in size), extensive consideration in regards to the development of infrastructure, and specifically the dry-screening plant and main treatment facility, have been undertaken over the course of the previous 24 months. The use of a separate in-field dry-screening plant located near the quarry is primarily aimed at dry-screening out fine materials (with the initial target being to remove approximately 45% of the fine material >1.2mm in size) to lower operational costs, and provide the additional benefit of reducing overall water consumption at the main treatment plant. As part of the ongoing development of these items, Company management, in conjunction with various equipment manufacturers and engineering firms, continuously evaluated various methods of dry-screening and the development of the in-field dry-screening plant by performed tests on various pieces of equipment using material from the project. Initial tests on the use of a mobile Terex H-6203 power-screening unit with a proposed 800 tonnes per hour head feed in conjunction with other items were tested and ultimately replaced by the company due to the inability of the power-screen to effectively dry-screen and remove the desired fine material in a consistent manner at desired volumes. In conjunction with a \$4,000,000 financing from Tiffany & Co. in late 2012, additional design work was completed, and new equipment was procured, deployed and installed to provide a much larger modular in-field dry-screening system which included: an 800 TPH rotary trommel, Dabmar Bivitec dry-screening technology, Dabmar resonance screening technology, extensive additional conveyor structures, and a host of other associated supporting items. The results of the testing and commissioning of these expanded quarrying and dry-screening operations were very positive and provided a considerable increase in overall dry-screening capacities and operational efficiencies. In addition to the expansion of the quarrying and dry-screening operations, several pieces of Volvo heavy equipment were deployed to the project at that time, along with the planned installation of a dedicated crushing circuit and enhanced de-watering screening at the main treatment plant.

After extensive ongoing testing, the Company determined that while the final design of this unique dry-screening plant demonstrated an ability to achieve the primary operational goals targeted by the Company, the further expansion of these quarrying and dry-screening operations was also undertaken to provide for even greater efficiencies, volumes, and the further increase in the removal of fine material (potentially removing ~60% of fine material >1.2mm in size). Subsequent to the fiscal year ended March 31, 2014, on July 8, 2014, the Company announced that it had completed the construction, installation, and commissioning of these additional expansions, along with several other operational upgrades to enhance the efficient screening of material and reduce operating costs, while providing the added benefits of better supporting the ongoing advancement of the project's objectives and increased processing capacity in the long-term.

Once recovered and initially processed through the newly expanded dry-screening plant, the reduced volume of material (less the >1.2mm material) is transported to the project's modular treatment plant where it is processed through bulk material reduction pans and a dedicated crushing circuit before entering a Dense Media Separation (DMS) plant. Primary hands-off final recovery is employed using containerized x-ray Flow-Sort machines, which is followed by a secondary recovery grease system. Processed material is then back-hauled to the quarry for immediate rehabilitation to further streamline operational efficiencies and allow the Company to minimize the size of the open quarry at all times. While the Company is very pleased with the design and operations of both the dry-screening and main processing plants, both are modular in nature and thus allow for cost effective expansion in the future if deemed beneficial.

The Company has placed significant focus and emphasis on the successful closing, financing, and advancement of the Krone-Endora at Venetia project over the past few years and currently views this project as its most significant business opportunity in the short-term. Building upon the success of the Krone-Endora acquisition, the related Tiffany & Co. strategic alliance and financing, and the further leveraging of management's experience, the Company also continues the process of identifying and evaluating other diamond mining opportunities with a view towards new acquisitions, development, and production opportunities.

**DMI Diamonds South Africa (Pty) Limited ("DMI Diamonds")** – Is the Company's 100% owned South African subsidiary which is used as the Company's main corporate entity to support its South African projects and operations. As part of the Company's ongoing efforts to identify, acquire, and develop production based projects, DMI Diamonds continuously evaluates and provides production support and equipment to various potential and ongoing projects within South Africa.

**So Ver Mine (Pty) Limited** - The Company currently retains an 85% majority ownership position in its South African subsidiary, So Ver Mine (Pty) Ltd. ("So Ver"). So Ver owns (subject to the terms of a pending sale agreement) certain land and mining rights to areas on which the Company successfully processed tailings reserves for several years on a 24 hour a day, 7-day a week basis, until their economic completion. The Company gained significant operational and industry knowledge in the processing of diamond tailings and may use this knowledge to potentially acquire new tailings deposits and/or tailings operations in the future should it identify opportunities which demonstrate an ability to provide the potential for additional long-term production and cash-flow. The Company believes that given the increasing demand for rough diamonds, and the limited potential for existing sources to meet those demands, the use of controlled procedures and operations to efficiently recover rough diamonds through the re-processing of tailings materials may provide a viable and profitable opportunity.

In January of 2007 the Company announced it had completed the processing of the majority of the higher grade tailings at the So Ver, and therefore, processing was suspended pending further evaluation of the entity's strategic fit within the Company's overall strategy and focus. The Company entered into an agreement with an individual whereby the Company would dispose of a certain portion of its landholdings, namely the So Ver farm no. 90, measuring 513.9192 hectares. The agreement was exclusive of the mining licenses and rights which the Company holds on the lands comprising part of the So Ver farm, and provided the Company with the ability to continue to conduct mining operations on the areas of the So Ver farm permitted by such mining licenses and rights if so desired at a future date. On July 6, 2009, the Company closed the transaction to sell this portion of the So Ver assets. In order to meet its ongoing short-term requirements of BEE ownership in So Ver, in fiscal 2010 the Company agreed to sell a 15% stake in the remaining assets of So Ver, and entered into a sale of shares agreement to sell its remaining 85% interest in So Ver. In addition to the purchase consideration the purchaser agreed to repay to the Company certain taxes paid by So Ver, and was required to assume any remaining past and future asset retirement obligations associated with So Ver. As of the date of this filing all payments of funds due had been received and recorded as deferred income. The parties to the transaction have submitted legal documentation to effect the closing of the transaction subject to certain agreed upon suspensive conditions which have not yet been met by the purchaser. Upon completion of the sale of So Ver the amount currently recorded on the Company's balance sheet under current asset retirement obligation of \$358,304 will be eliminated.

**Jagersfontain Diamond Mining Company (Pty) Ltd.** – Jagersfontain Diamond Mining Company (Pty) Ltd. was a wholly owned inactive subsidiary of the Company which was dissolved during the quarter ended December 31, 2013.

## MANAGEMENT AND CAPABILITIES

There were no new appointments to the Company's management during the fiscal year ended March 31, 2014, and no changes to the Board of Directors. Mr. Dean H. Taylor remains a Director and the Company's President and Chief Executive Officer. Mr. Darren Vucurevich remains a Director and was appointed as the Company's Chief Financial Officer on October 8, 2010. Mr. Dean Del Frari remains the Company's Managing Director of Operations and continues the management and development of the Company's projects, operations team, and acquisition efforts aimed at fulfilling the Company's future objectives. The Company's Board of Directors consist of the Company's CEO, Mr. Dean Taylor (Chairman), the Company's CFO, Mr. Darren Vucurevich, world renowned kimberlite expert and professor Dr. Stephen E. Haggerty, and New York-based executive Mr. Sheldon Nelson.

The Company has developed extensive relationships with several industry leaders, and employs the services of many of the same professional consulting firms which support the ongoing projects of large mining companies worldwide. These relationships assist the Company in its ability to successfully and cost effectively evaluate, plan, and execute potential projects in a timely and professional manner. The Company has ongoing access to an established operational team of well-trained employees in South Africa with the ability to deploy them to operate projects the Company is able to secure. In addition to this, the Company will continue to enhance its operational management team by drawing on the abundance of skilled and experienced diamond industry professionals available as opportunities materialize.

### *SOUTH AFRICAN MINING CHARTER – BLACK ECONOMIC EMPOWERMENT (BEE)*

In October 2002, with the support of all mining houses and labor unions concerned, the Broad-Based Socio-Economic Empowerment (“BEE”) Charter was introduced by South African Cabinet. This Charter called for certain ownership and management goals in the mining industry for the benefit of historically disadvantaged South Africans within five years. These objectives have been set with the goal of providing equitable access to the nation's vast mineral resources for all South Africans. Many of these historically disadvantaged people are well-qualified, skilled workers already in the field and provide a wealth of opportunity for junior companies such as Diamcor. The advent of a new democratic constitution in South Africa has resulted in significant changes and restructuring of what was once referred to as the “big six” mining houses which traditionally controlled mining production and mineral rights within the region. New legislation has seen the phasing out of this past oligarchy and a shift of focus towards the government accommodating small mining companies and creating various opportunities for junior operations to prosper and grow when affiliated with successful Black Empowerment Partners.

On March 5, 2008, the Company announced a formal joint venture partnership with well-established South African BEE group Nozala Investments (Pty) Ltd. This partnership is currently reflected in the Diamcor South African subsidiary, DMI Minerals South Africa (Pty) Ltd., which was formed to pursue diamond mining projects with near-term production potential within South Africa which fit within the Company's stated focus and strategy. Under the terms of the joint venture, which exceed the stated requirements of the BEE charter in South Africa, Diamcor retained a 70% direct ownership in the DMI Minerals subsidiary, with Nozala acquiring a 30% direct shareholder ownership interest. Operationally, expenses charged to the development of any projects held by the entity, and the profits generated, will be similarly proportional. The Company considers this joint venture to be a significant achievement because not only is Nozala a respected and established BEE group representing the interests of some estimated 500,000 rural women shareholders, but it is also a well-respected corporate entity in the South African business community. Both of these attributes have the potential to enhance the Company's ability to achieve its stated growth objectives of securing additional projects within South Africa in a corporately responsible way.

The Company has gained considerable insight into the workings of the new BEE Charter, as well as the government expectations and requirements, through its previous operational history. The Company believes that well-organized BEE groups can provide value to the Company through their investment, professional affiliations, corporate knowledge, the management of BEE objectives and the assurance that a meaningful broad-based benefit is achieved by their involvement. The Company has chosen to align itself only with groups which demonstrate a proven track record and ability to achieve these government mandated objectives, which in turn will enhance the Company's ability to achieve its growth objectives by participating in the higher profile acquisitions where Corporate Social Responsibility (CSR) objectives are of paramount importance.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The quarterly financial results for the three months ended March 31, 2014, as well as those for the quarters ending December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, December 31, 2012, September 30, 2012, June 30, 2012, and March 31, 2012 are presented in IFRS. Those included in this section for the quarters ending December 31, 2011, September 30, 2011, June 30, 2011, March 31, 2011, December 31, 2010, September 30, 2010, June 30, 2010 have been restated to IFRS to reflect the Company's transition to IFRS effective January 1, 2010. The figures include the results of operations in South Africa.

<b>March 31, 2014 Fiscal Year</b>				
	Fourth Quarter March 31, 2014 (IFRS)	Third Quarter December 31, 2013 (IFRS)	Second Quarter September 30, 2013 (IFRS)	First Quarter June 30, 2013 (IFRS)
Gross Revenue	\$ 1,354,901	\$ 1,396,591	\$ 1,089,272	\$ 446,365
Total Expenses	2,467,909	1,373,292	3,379,856	1,245,155
Net Income / (Loss) for Period	(542,191)	121,917	(2,475,437)	(797,362)
Net Income / (Loss) per Share (Basic)	(0.01)	0.01	(0.07)	(0.02)
Cash Flow (Used in) Operations	1,122,365	309,638	332,978	(895,340)
Cash and Cash Equivalents (End of Period)	3,880,112	747,714	949,103	1,353,803
Assets	11,795,700	6,915,798	7,334,506	8,188,281
Dividends	Nil	Nil	Nil	Nil

<b>March 31, 2013 Fiscal Year</b>				
	Fourth Quarter March 31, 2013 (IFRS)	Third Quarter December 31, 2012 (IFRS)	Second Quarter September 30, 2012 (IFRS)	First Quarter June 30, 2012 (IFRS)
Gross Revenue	\$ 2,510	\$ 542,220	\$ 10,929	\$ 2,299
Total Expenses	1,377,323	1,443,282	1,098,322	833,413
Net (loss) for Period	(1,374,813)	(901,062)	(1,087,393)	(831,114)
Net (Loss) per Share (Basic)	(0.03)	(0.02)	(0.03)	(0.02)
Cash Flow (Used in) Operations	(809,023)	(666,801)	(1,287,998)	(390,429)
Cash and Cash Equivalents (End of Period)	793,622	1,956,201	595,819	1,981,059
Assets	7,258,428	8,298,292	5,163,474	6,602,358
Dividends	Nil	Nil	Nil	Nil

<b>March 31, 2012 Fiscal Year</b>				
	Fourth Quarter March 31, 2012 (IFRS)	Third Quarter December 31, 2011 (Restated to IFRS)	Second Quarter September 30, 2011 (Restated to IFRS)	First Quarter June 30, 2011 (Restated to IFRS)
Gross Revenue	\$ 186,196	\$ -	\$ -	\$ -
Total Expenses	1,840,452	725,774	421,835	1,055,571
Net (loss) for Period	(1,326,894)	(951,797)	(500,078)	(1,071,869)
Net (Loss) per Share (Basic)	(0.03)	(0.04)	(0.02)	(0.04)
Cash Flow (Used in) Operations	(627,259)	(543,776)	(983,170)	(635,551)
Cash and Cash Equivalents (End of Period)	1,747,313	2,137,705	3,805,761	5,020,806
Assets	6,312,358	6,331,937	7,046,831	7,940,959
Dividends	Nil	Nil	Nil	Nil

<b>March 31, 2011 Fiscal Year</b>				
	Fourth Quarter March 31, 2011 (Restated to IFRS)	Third Quarter December 31, 2010 (Restated to IFRS)	Second Quarter September 30, 2010 (Restated to IFRS)	First Quarter June 30, 2010 (Restated to IFRS)
Gross Revenue	\$ -	\$ -	\$ -	\$ -
Total Expenses	1,142,283	284,388	284,280	1,096,292
Net (loss) for Period	(1,294,369)	(180,186)	(113,660)	(1,092,848)
Net (Loss) per Share (Basic)	(0.05)	(0.01)	(0.01)	(0.05)
Cash Flow (Used in) Operations	(1,250,870)	(2,119,087)	(250,056)	(320,796)
Cash and Cash Equivalents (End of Period)	5,992,680	598,374	2,283,035	2,522,906
Assets	8,338,595	3,013,486	2,789,265	3,000,630
Dividends	Nil	Nil	Nil	Nil

## ANNUAL RESULTS ANALYSIS

As of March 31, 2014, the Company held assets of \$11,795,700 which included cash and cash equivalents of \$3,880,112, diamond inventory of \$294,300, and \$294,918 in accounts receivable for value added tax receivables not yet received, equipment rental income, trade receivables, and \$51,975 associated with the sale the Company's So Ver property and other proceeds from the sale of So Ver. An amount of \$28,238 under rehabilitation trust fund is held on deposit with the Department of Mineral Resources in South Africa in conjunction with rehabilitation costs, and the Company has other prepaid expenses of \$88,855. The net book value of property, plant and equipment assets was \$4,505,090, exploration and evaluation assets associated with the Krone-Endora at Venetia project were \$2,356,547, and the Company had deferred taxes assets of \$295,665, as of March 31, 2014.

As of March 31, 2014, the Company's total liabilities were \$10,153,560, which includes \$1,251,914 in accounts payable associated with expansion upgrades underway at Krone-Endora, \$358,304 recorded as a current liability in association with the asset retirement obligations of So Ver, \$1,339,204 which is the current portion of long term debt related to the Tiffany & Co. convertible debenture and repayments of debt due in the next 12 months, and deferred income of \$163,406

associated with the sale of So Ver due to certain covenants not met as of the end of the fiscal period. The \$358,304 for asset retirement obligation associated with rehabilitation and abandonment of mines and facilities at So Ver will be eliminated upon completion of the sale of So Ver. The Company has long-term debt of \$5,925,884 related to the Tiffany & Co. financing. \$129,116 is recognized as a decommissioning liability associated with the Krone-Endora at Venetia project, and \$985,732 is due to the Company's Black Economic Empowerment partner in conjunction with loan amounts, which have no set terms of repayment and are being used by DMI Minerals South Africa (Pty) Ltd.

The Company operates in one market segment for the mining and sale of rough diamonds to the world market. The Company's financial instruments consist of cash and cash equivalents, receivables and accounts payables and accrued liabilities. Unless otherwise noted, management is of the opinion that the Company is not exposed to any significant interest, currency or credit risks arising from these instruments. The Company's financial statements are consolidated and shown in Canadian dollars as required and conversions from foreign exchange are noted. A majority of the Company's operational facilities are located in South Africa and the Company follows standard South African policy with regard to both the investment and removal of funds with respect to investment it makes into projects and operations within South Africa.

### ***Revenue***

The Company reports revenue of \$4,287,129 net of commissions and fees from the sale of rough diamonds incidental to the ongoing testing and commissioning exercises, \$9,389 from interest and other income, a loss on disposal of assets of \$13, and a gain of \$85,827 for foreign exchange, for the fiscal year ended March 31, 2014, as compared to revenue of \$539,979 from the sale of rough diamonds incidental to the ongoing testing and commissioning exercises net of commissions and fees, \$19,237 from interest and other income, and a loss of \$1,258 for foreign exchange for the same period during the prior fiscal year ended March 31, 2013. The Company anticipates it will realize additional revenues from the incidental recoveries and the sale of rough diamonds subsequent to March 31, 2014.

### ***Cost of Sales or Operating Expenses***

During the fiscal year ended March 31, 2014, operating expenses were \$1,388,643, a reduction as compared to \$1,818,603 realized in the same period for the prior fiscal year ended March 31, 2013 due reduced labor requirements given the completion of various infrastructure projects, and an increase in operational efficiencies overall. During the fiscal year ended March 31, 2014 the Company continued to focus its efforts on the advancement of requirements necessary to support the stated objectives associated with advancing the Krone-Endora at Venetia project and the Company's determination of final production decisions.

### ***General and Administrative Expenses***

Total general and administrative expenses for the fiscal year ended March 31, 2014 were \$7,077,569 inclusive of \$3,467,590 in non-cash expense according to the Black-Scholes pricing model for the issuance of options. Net of non-cash charges, general and administrative expenses were \$3,609,979 in fiscal 2014 compared to \$2,933,738 incurred during the prior fiscal year. General and administrative expense increases year over year were associated with the ongoing progress and expansion of the infrastructure and facilities at the Krone-Endora at Venetia project. These increases were offset by a significant increase in revenues during fiscal 2014. Year over year, accretion and depreciation expenses increased to \$735,605 from \$428,870, consulting fees increased to \$183,774 from \$127,000, insurance costs increased to \$57,091 from \$47,447 due to an increase in assets, and interest and bank charges increased to \$723,767 from \$691,781 due to interest expense associated with the Tiffany & Co financings. Office expenses increased slightly to \$158,073 from \$147,396 as a result of increased facilities associated with the advancement of the project. Professional fees increased to \$170,687 as compared to \$124,147 incurred during the same period in the prior fiscal year as a result of increased activities at the Krone-Endora at Venetia project and costs associated with capital funding objectives. Investor relations expense increased to \$199,547 from \$107,285 as a result of capital funding objectives, while salaries and wages increased to \$1,112,712 from \$1,004,020. As mentioned above, stock based compensation expenses associated with the issuance of options during the fiscal year ended March 31, 2014 were recorded at \$3,467,590, as compared to \$nil for the previous fiscal year ended March 31, 2013 during which no options were granted. Expenses for transfer and regulatory fees increased to \$82,230 from \$47,942 due to increased costs associated with capital funding during year, while royalties expense associated with the sale of diamonds during the fiscal year ended March 31, 2014 increased to \$21,439 from \$nil in the previous fiscal year. Travel expenses decreased to \$165,054 for the fiscal year ended March 31, 2014 as compared

to \$207,850 during the prior fiscal year ended March 31, 2013.

General and administrative expenses for the fiscal year ended March 31, 2014 were primarily incurred by the Company in support of the further advancement of the Krone-Endora at Venetia project's recommended work programmes, the Company's continued advancement of the plant commissioning and testing exercises and expansions, the Company's preparations for its planned move to bulk sampling and trial mining exercises, as well as the Company's planned move to 24/7 operations in conjunction with the granting of the required permitting by the South African Department of Mineral Resources. The Company remains committed to managing its resources carefully and conserving cash. While expenses are expected to remain at current levels in the coming quarters, the Company believes it has the potential to generate revenue in the future from the incidental recovery and sales of rough diamonds.

### ***Net Earnings***

As a result of the ongoing commissioning and testing exercises and the incidental recovery and sale of rough diamonds from the project, the Company generated income of \$4,287,129 net of commissions and fees from the sale of rough diamonds incidental to the ongoing commissioning and testing exercises performed during the fiscal year ended March 31, 2014. The Company incurred \$1,388,643 in operating expenses, and realized a net income from operating activities of \$2,898,486. The Company incurred \$7,077,569 in general and administrative expenses, \$9,389 in interest and other income, a loss on disposal of assets of \$13, a gain of \$85,827 for foreign exchange, and a reduction of deferred taxes of \$390,807, which resulted in a net loss of \$3,693,073 for the fiscal year ended March 31, 2014, as compared to a net loss of \$4,305,835 for the prior fiscal year ended March 31, 2013. The Company recorded a foreign currency translation loss of \$389,575 for the fiscal year ended March 31, 2014, as compared to a loss of \$638,183 for the fiscal year ended March 31, 2013.

The following table provides a brief summary of the company's financial operations:

	<b>Fiscal Year Ended March 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Total Revenue	\$ 4,287,129	\$ 539,979	\$ Nil
Net Income (Loss)	\$ (3,693,073)	\$ (4,305,835)	\$ (3,850,638)
Basic And Diluted Earnings(Loss) Per Common Share	\$ (0.09)	\$ (0.10)	\$ (0.13)
Total Assets	\$ 11,795,700	\$ 7,258,428	\$ 6,312,358
Total Long Term Liabilities	\$ 7,040,732	\$ 8,552,743	\$ 6,954,491
Cash Dividend	\$ Nil	\$ Nil	\$ Nil

### **LIQUIDITY AND CAPITAL RESOURCES**

For the fiscal year ended March 31, 2014, the Company recorded a net loss of \$3,693,073 as compared to a net loss of \$4,305,835 for the fiscal year ended March 31, 2013. The Company recorded cash flow from operating activities of \$1,375,089 for the fiscal year ended March 31, 2014, as compared to a negative cash flow from operating activities of \$3,154,251 for the fiscal year ended March 31, 2013. As of March 31, 2014, the Company had an accumulated deficit of \$23,560,651.

**Cash Position.** As of March 31, 2014, the Company had; cash and cash equivalents of \$3,880,112 (\$793,622 March 31, 2013), rough diamond inventory of \$294,300 (\$87,792 March 31, 2013), accounts receivable of \$294,918 (\$234,520 March 31 2013), and prepaid expenses of \$88,855 (\$11,140 March 31, 2013). The Company believes it has adequate cash, or the potential to access additional capital if required, for the continued development, commissioning, bulk sampling, and its targeted move to 24/7 operations in conjunction with the granting of required permitting from the South African Department of Mineral Resources at its Krone-Endora at Venetia project. The Company believes it has the potential to generate future revenues from the incidental recovery and sale of rough diamonds from the ongoing testing and commissioning exercises at the project.

A portion of the cash on hand and available for use by the Company at March 31, 2014 was held in its foreign bank accounts in South Africa and is being used for the continued advancement of the Krone-Endora at Venetia project and for

general corporate purposes. The Company also follows certain procedures to aid in the recovery and re-investment of funds from its projects and inter-corporate shareholder loans.

**Financing Activities.** Recent financings by the Company were designed to support the Company's strategy of leveraging its well-established operational history to identify, acquire, and develop assets which demonstrate the potential for the near-term sustained production of rough diamonds while minimizing shareholder dilution.

On March 23, 2011, shortly after the closing of the acquisition of Krone-Endora at Venetia project from De Beers, the Company entered into a long-term strategic alliance with Tiffany & Co. to expedite the advancement of the project. Tiffany & Co., through its Canadian subsidiary, provided the Company with \$5,500,000 in financing, which included a \$3,500,000 Term Loan and a \$2,000,000 Convertible Debenture. The Term Loan has a 5 year term and a fixed rate of interest of 7% per annum. The loan is non-amortizing for a 24 month period and no interest or principal is due until following this 24 month period, at which time interest and principal is payable monthly in accordance with a 36 month amortization schedule. The Company has the right to repay the Term Loan and any accrued and unpaid interest due at any time without notice or penalty. The Convertible Debenture has a term of 5 years and a fixed rate of interest of 7% per annum. Like the Term Loan, interest accrues but is not payable for the 24 month period from the date of issuance, following which interest becomes due and is payable monthly. 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 conversion rights contained in the Convertible Debenture. Tiffany & Co. Canada could convert the principal and any accrued and unpaid interest, in whole or in part, into Company common shares at a price of \$0.75 per share. At any time after 24 months from date of issuance, the Company has the right to convert the principal, and any accrued and unpaid interest, in whole or in part, into Company common shares at a price of \$0.75 per share. Under both conversion scenarios and assuming full conversion of principal and all accrued interest 24 months from the date of the issue of the Convertible Debenture, a maximum of 3,053,614 common shares could potentially be issued at that time. Subsequent to the fiscal year ended March 31, 2013, on April 8<sup>th</sup>, 2013, the Company announced that it had exercised its right to convert the principal and accrued interest into Company common shares. A total of \$2,295,920 inclusive of principal and accrued interest was converted at the stipulated price of \$0.75 per common share, resulting in the issuance of 3,061,227 Company common shares to Tiffany. The sourcing, negotiation and successful completion of this strategic alliance and financing were completed by the Company's management and directors.

On November 16, 2012, the Company announced that it had secured an additional \$4.0M in financing from its long-term strategic alliance partner, world famous premier luxury jewelry and specialty retailer Tiffany & Co. The \$4,000,000 in financing was provided by Tiffany's subsidiary, Tiffany & Co. Canada, via a \$2,400,000 term loan and a \$1,600,000 convertible debt debenture. The Term Loan has a fixed rate of interest of 9% and is secured by a promissory note which is non-amortizing until January 2015, at which time principal and interest is payable monthly in accordance with a 36 month amortization schedule. The Company has the right to repay the outstanding principal and any accrued and unpaid interest due under the Promissory Note at any time without notice or penalty. The Convertible Debenture has a fixed rate of interest of 9% per annum, and is non-amortizing until January 2015, following which time principal and interest is payable monthly in accordance with a 36 month amortization schedule. The Company has the right to repay the outstanding principal and any accrued and unpaid interest, without penalty, on not less than 30-days' notice and subject to the conversion rights contained in the Convertible Debenture. Under the conversion rights of the Convertible Debenture, Tiffany & Co. Canada may convert the principal amount of \$1,600,000, along with any accrued and unpaid interest due at that time, in whole or in part, into Class A Common Shares (the "Shares") of the Company at a conversion price of CAD \$1.60 per Share. Subsequent to the period ended December 31, 2013, as a result of meetings held in January and February 2014 the Company and Tiffany & Co. agreed to defer any payments on the \$2,400,000 term loan and the \$1,600,000 convertible debenture, until January 2015.

The Company completed a non-brokered private placement financing of \$1,984,730 resulting in the issuance of 1,587,784 units at a price of \$1.25 per unit on June 17, 2013, with each unit consisting of one common share and one-half of one common share purchase warrant at an exercise price of \$1.75 expiring June 17, 2016. In conjunction with the closing of the financing the Company paid finder's fees of an aggregate of \$28,932 in cash and issued an aggregate of 23,146 broker warrants to purchase up to 23,146 shares of the Company at a purchase price of \$1.75 until June 17, 2016.

The Company completed a brokered private placement financing of \$3,007,001 resulting in the issuance of 2,147,858 units at a price of \$1.40 per unit on March 12, 2014, with each unit consisting of one common share and one-half of one common share purchase warrant with an exercise price of \$1.80 expiring March 11, 2017. In conjunction with the closing of the

financing the Company paid aggregate cash commissions and legal fees of \$185,994 to agents, which represented 6% of the gross proceeds received from subscriptions introduced to the Company by the agents plus legal fees of \$26,938. In addition, the Company issued an aggregate of 114,471 non-transferable warrants to agents, representing 6% of the number of units sold to subscribers introduced to the Company by agents. Each warrant issued to the agents entitled the holder to purchase one share of the Company at an exercise price of \$1.80 until March 11, 2017. The shares and warrant issued were subject to a hold period ending on July 12, 2014.

In conjunction with the above initial closing of the brokered private placement on March 12, 2014, the Company also announced its intentions to consider additional subscriptions having the same terms as that of the offering if received within the applicable price reservation period. On March 21, 2014, the Company announced that it had received subscriptions for an additional 338,700 units, resulting in additional aggregate gross proceeds to the Company of \$474,180, with each unit consisting of one common share and one half of one common share purchase warrant at an exercise price of \$1.80 expiring March 21, 2017. No additional cash commissions or warrants were issued to agents in conjunction with this second closing.

Subsequent to all financings and related items, as of March 31, 2014 the Company had **37,709,236** common shares issued and outstanding and has authorized capital of an unlimited number of shares.

**Working Capital.** As of March 31, 2014 the Company had working capital of \$1,497,332 as compared to negative working capital of \$2,837,520, at March 31, 2013.

**Future Capital Requirements.** The Company has incurred losses since its inception. However, given the Company's closing of the Krone-Endora at Venetia project acquisition, its successful recent financings, the successful advancement of the project, the recent move to commissioning of the modular plants at the project, and the initial sales of rough diamonds incidentally recovered from the ongoing commissioning and testing exercises, the Company anticipates it has the potential ability to finance the recommended bulk sampling and trial mining exercises, and 24/7 operations at the Krone-Endora at Venetia project in conjunction with the granting of required permitting by the South African Department of Mineral Resources. Its ability to continue as a going concern will depend on the results of its operations, its ability to become profitable through the continued sale of rough diamonds and / or its ability to raise additional capital.

There can be no assurance that the Company will be able to secure sufficient incidental recoveries, or sell rough diamonds, or continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **CONTRACTUAL OBLIGATIONS**

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

## **SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

In the preparation of the unaudited condensed consolidated interim financial statements management is required to make judgments, assumptions and estimates that affect both the reported amounts of the Company's assets and liabilities at the date of the financial statements, and its reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The unaudited condensed consolidated interim financial statements also include estimates, which, by their nature, are uncertain. The impacts of such estimates affect various items throughout the unaudited condensed and consolidated interim financial statements, and may require accounting adjustments based on future

occurrences. Revisions to accounting estimates are recognized by the Company in the period in which the estimate is revised and in future periods if the revision affects both the current and future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable by the Company under the circumstances.

Significant areas requiring the use of management estimates relate to recoverability of capitalized acquisition costs and exploration and evaluation associated with the Krone-Endora at Venetia project, asset valuations of other items, reserve and resource estimation, estimated useful lives and residual value of property, plant and equipment, provisions and contingent liabilities, decommissioning and rehabilitation/restoration provisions, accrued liabilities, the assumptions used in determining the fair value of stock options and warrants, and the calculations of current and future income tax assets and liabilities and their reversals, as applicable. Actual results could materially differ from these estimates.

The Company reviews its interest in the Krone-Endora at Venetia project for potential impairment based on results to date, or when events and changes in circumstances may indicate that the carrying value of the assets may not be recoverable. IFRS requires the Company to make certain judgments, assumptions, and estimates in identifying such events and changes in circumstances, and in assessing their impact on the valuations of the affected assets. Impairments are recognized when the book values exceed management's estimate of the net recoverable amounts associated with the affected assets. The values shown on the balance sheet for the Company's interest in the Krone-Endora at Venetia project represent the Company's assumption that the amounts are recoverable. Due to the various variables associated with the Company's judgments and assumptions, the precision and accuracy of estimates of related impairment charges are subject to significant uncertainties, and may change significantly as additional information becomes known. The Company's assessment is that as at March 31, 2014, there has been no impairment in the carrying value of its interest in the Krone-Endora at Venetia project.

The Company has recorded asset retirement obligations for the Krone-Endora at Venetia project and So Ver tailing re-treatment facilities. The asset retirement obligation calculation, and the accretion recorded are based on current amounts assessed and currently deposited with the South African Department of Mineral Resources, and assumptions regarding the timing and cost of such rehabilitation. The estimates may be inaccurate and the actual costs for the asset retirement obligations may change significantly.

The Company expenses all stock-based payments, and values warrants using the fair value method. Under the fair value method, an option and warrant pricing model is used to determine fair value, and estimates are made as to the volatility of the Company's shares and the expected life of the options and warrants. Such estimates affect the fair value determined by the option and warrant pricing model.

The determination of the categories for financial assets and liabilities has also been identified as an accounting policy which involves judgments or assessments to be made by management.

## **CHANGES IN ACCOUNTING POLICIES**

### **International Financial Reporting Standards ("IFRS")**

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 Diamcor 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 Diamcor 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 Diamcor 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 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 Diamcor 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 Diamcor on adoption of this standard.

## **RISK FACTORS RELATING TO THE COMPANY'S BUSINESS**

The Company faces a number of risks and uncertainties that could cause actual results or events to differ materially from those contained in any forward-looking statement. Additional risks and uncertainties not presently known to the Company or that are currently deemed to be immaterial may also impair the Company's business operations. Factors that could cause or contribute to such differences include, but are not limited to, the following:

### ***Capital Requirements***

There is no assurance that the Company will continue to be able to access the capital markets for the required funding necessary to maintain exploration properties, nor to complete any future acquisitions, or any future exploration programs. The Company may require additional capital to finance expansion or growth at levels greater than its current business plan. Insufficient capital may require the Company to delay or scale back its proposed acquisition and/or development activities.

### ***Revenues and Growth***

There are no assurances that suitable additional projects will be secured or that rough diamonds will be recovered incidentally, or at levels sufficient to sustain the Company's operations. The economics and feasibility of any potential project can be affected by many factors which may be beyond the capacity of the Company to anticipate or control. Material processing revenues and production in general are also reliant on both the quality and amount of diamond bearing material both available and being processed and the Company cannot predict with any certainty the recovery levels from a given area being worked, thus affecting revenues. This is also true of any prospective project the Company may acquire related to various other methods of diamond production.

### ***Nature of Mining***

The operation of any diamond mining project is subject to risks inherent in the mining industry, including variations in grade and other geological differences, unexpected problems associated with weather and required water, power, surface conditions, processing problems, mechanical equipment performance, accidents, labor disputes, risks relating to the physical security of the diamonds, force majeure risks and natural disasters. Such risks could result in personal injury or fatality, damage to or destruction of mining properties, processing facilities or equipment, environmental damage, delays or reductions in mining production, monetary losses, and possible legal liability.

### ***Nature of Joint Arrangement (Nozala)***

On March 5, 2008, the Company announced a formal joint venture partnership with well-established South African BEE group Nozala Investments (Pty) Ltd. This partnership is reflected in Diamcor's wholly-owned South African subsidiaries, DMI Minerals South Africa (Pty) Ltd. which was initially formed to secure diamond mining projects in South Africa. Under the terms of the joint venture in DMI Minerals, Diamcor retains a 70% direct ownership in the subsidiary with Nozala holding a 30% direct shareholder ownership interest. Operationally, expenses charged to the development of projects held by the entities, and the revenues generated, will be similarly proportional. These joint arrangements are subject to the risks normally associated with the conduct of joint ventures and similar joint arrangements. These risks include the inability to exert influence over strategic decisions, the joint venture partner's ability to provide its proportionate share of funding, the development and operation of the projects, and mineral claims.

### ***Diamond Prices and Demand for Diamonds***

The profitability of Diamcor will be dependent upon the recovery and sale of rough diamonds, which is dependent in significant part upon the worldwide demand for, and price of, diamonds. Diamond prices fluctuate and are affected by numerous factors beyond the control of the Company, including worldwide economic trends, particularly in the US, Japan, China and India, worldwide levels of diamond discovery and production and the level of demand for, and discretionary spending on, luxury goods such as diamonds and jewelry. Low or negative growth in the worldwide economy or the occurrence of terrorist activities creating disruptions in economic growth could result in decreased demand for luxury goods such as diamonds, thereby negatively affecting the price of diamonds. Similarly, a substantial increase in the worldwide level of diamond production could also negatively affect the price of diamonds. In each case, such developments could materially adversely affect the Company's results of operations.

### ***Currency Risk***

Currency fluctuations may affect the Company's financial performance. Diamonds are sold throughout the world based principally on the US dollar price. The Company reports its financial results in Canadian dollars and a majority of its costs and expenses are incurred in either Canadian dollars or the South African Rand. The Company's South African subsidiaries operate using principally the US dollar and the South African Rand and, as such, may be negatively affected by fluctuations in foreign exchange rates when translating from the currency of measurement of the Company's subsidiary to the Company's reporting currency. The appreciation of the Canadian dollar against the US dollar, and the depreciation of such other currencies against the US or Canadian dollar, therefore, may increase expenses and the amount of the Company's liabilities relative to revenue.

### ***Licenses and Permits / (Rights)***

There are inherent risks involved in operating in foreign countries, including stringent environmental and permitting / rights issues. The exercise of the So Ver mineral rights (subject to the terms of the pending sale agreement), the Krone-Endora at Venetia project, pending acquisitions, and future exploration on certain properties requires licenses and permits from the South African government. There can be no guarantee that the Company will be able to renew these licenses or obtain or maintain all other necessary licenses and permits that may be required to maintain operations or to further explore and develop certain properties. Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mining properties.

### ***Regulatory and Environmental Risks***

The operation of mines and exploration activities are subject to various laws and regulations governing the protection of the environment, exploration, development, production, taxes, labor standards, occupational health, waste disposal, mine safety, manufacturing safety, power and water, and other matters. New laws and regulations, amendments to existing laws and regulations, or more stringent implementation or changes in enforcement policies under existing laws and regulations could have a material adverse impact on the Company by increasing costs and/or impairing the operations at the project. Mining and manufacturing are subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of mining and manufacturing operations. To the extent that the Company is subject to uninsured environmental liabilities, the payment of such liabilities could have a material adverse effect on the Company.

### ***Reliance on Skilled Employees***

Exploration and operational activities for any Company projects are dependent upon the efforts of certain key and skilled employees. The loss of these employees or the inability of the Company to attract and retain additional skilled employees may adversely affect the level of operations and the Company's ability to operate efficiently. Currently, there is significant competition for skilled workers in these operations. The loss of the services of any of the Company's key executive officers or key employees could harm its business. None of the Company's key executive officers or key employees currently has a contract that guarantees their continued employment with the Company. There can be no assurance that any of these persons will remain employed by the Company or that these persons will not participate in businesses that compete with it in the future.

### ***Regional Power Supply***

Potential power supply issues in South Africa have been highlighted by the media in the past years with regards to the inability of state-owned power supplier *Eskom* to deliver consistent electricity requirements to many of the larger mines in South Africa. While these issues are not presently expected to affect any of the current operational requirements of the Company, there can be no assurances that any new projects that the Company may acquire or operate will be able to secure the required electrical capacities needed to sustain uninterrupted supply and operations.

### ***Competition***

Within the minerals industry sector, including the diamond tailings re-treatment sector, diamond exploration sector, and various other related methods of diamond mining and production, *Diamcor* competes with other companies possessing greater financial and technical resources than it may have access to. Even with its current facility, and the promise of any other exploration or diamond producing project, or property, there can be no assurances that the Company will continue to be able to complete or execute its desired programs on its proposed schedules, nor within the cost estimates assumed. If the Company is unable to successfully compete in the diamond market, then its results of operations will be adversely affected.

### ***Securities May Be Volatile and Subject to Wide Fluctuations***

The market price of the Company's securities may be volatile and subject to wide fluctuations. If the Company's revenues do not grow, or grow more slowly than it requires, or if operating or capital expenditures exceed its expectations and

cannot be adjusted accordingly, or if some other event adversely affects the Company, the market price of the Company's securities could decline. If securities analysts alter their financial estimates of the Company's financial condition it could affect the price of the Company's securities. Some other factors that could affect the market price of the Company's securities include announcements of new explorations, technological innovations and competitive developments. In addition, if the market for stocks in the Company's industry or the stock market in general experiences a loss in investor confidence or otherwise fails, the market price of the Company's securities could fall for reasons unrelated to its business, results of operations and financial condition. The market price of the Company's stock also might decline in reaction to conditions, trends or events that affect other companies in the market even if these conditions, trends or events do not directly affect the Company. In the past, companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. If the Company were to become the subject of securities class action litigation, it could result in substantial costs and a diversion of management's attention and resources.

## **RELATED PARTY TRANSACTIONS**

During the fiscal year ended March 31, 2014, the Company paid or accrued to key management personnel and consultants, salaries totaling \$599,000, Directors fees of \$66,000, and performance bonuses totaling \$418,000. As at March 31, 2014, the Company owed a total of \$218,367 to directors of the Company and its subsidiaries, companies controlled by a Director, an individual related to a director and to former directors.

## **OUTSTANDING SHARE INFORMATION**

As at July 29, 2014

### **Authorized**

Issued and outstanding shares	37,884,236
Fully diluted	46,502,357
Weighted average outstanding shares	35,641,750

## **NATIONAL INSTRUMENT 52-109 ON CERTIFICATION OF ANNUAL AND INTERIM FILINGS**

The Company files a 52-109FV2 certification of interim filings duly executed by the Company's current CEO and CFO as required by securities laws.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and to ensure that required information is gathered and communicated to the Company's management so that decisions can be made about timely disclosure of that information. The Company's Chief Executive Officer and Chief Operating Officer evaluated the Company's disclosure controls and procedures for the fiscal year ended March 31, 2014 and have concluded that the Company's disclosure controls and procedures to be adequate for the above purposes.

Including the Company's transition to IFRS, there have been no significant changes in the Company's disclosure controls, or in other factors that materially affected or are reasonably likely to affect, the Company's disclosure controls subsequent to the date the Company carried out its evaluation.

## **OTHER**

The Company operates offices in both Canada and South Africa and is listed on the Canadian TSX Venture Exchange trading under the symbol “DMI”, and on the OTC QX International in the USA trading under the symbol “DMIFF”. Public company information is available on SEDAR at [www.sedar.com](http://www.sedar.com) or at the Company’s website [www.diamcormining.com](http://www.diamcormining.com).

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements included in this MD&A may constitute forward-looking statements within the meaning of securities laws. In some cases, forward-looking statements can be identified by the use of terms such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “possible”, “continue” or other similar expressions concerning matters that are not historical facts. Forward-looking statements may relate to management’s future outlook and anticipated events or results, and may include statements or information regarding projected capital expenditure requirements, estimated productions, plans, timelines and targets for construction, joint venture relationships, the closing of anticipated acquisitions, mining, development, production and exploration activities, future mining and processing, the number and timing of expected rough diamond sales, projected sales growth, expected gross margin and expense trends, expected diamond prices and expectations concerning the diamond industry.

Forward-looking statements are based on certain factors and assumptions regarding, among other things, mining, production, construction and exploration activities, world economic conditions, the level of world-wide diamond production, and the receipt of necessary regulatory permits. With respect to statements concerning sales growth, Diamcor has assumed that current world economic conditions will not materially change or deteriorate. While Diamcor considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward-looking statements are subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what we currently expect. These factors include, among other things, the uncertain nature of mining activities, risks associated with joint venture operations, risks associated with the remote locations of certain mine sites, risks associated with regulatory requirements, fluctuations in diamond prices and changes in world economic conditions and the risk of fluctuations in the foreign currency exchange rate. Please see page 19 of this MD&A for a discussion of these and other risks and uncertainties involved in Diamcor’s operations.

You should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. While Diamcor may elect to, it is under no obligation and does not undertake to update this information at any particular time, except as required by law.

The Qualified Person (as defined in National Instrument 43-101) for the technical information contained in this document is Mr. James P. Hawkins (B.Sc., P.Geo.), and Mr. Hawkins has reviewed this document and approved of its contents.