# DIAMCOR MINING INC.

# CONSOLIDATED FINANCIAL STATEMENTS

## DECEMBER 31, 2008

(Unaudited – See Notice to Reader)

## Notice to Reader

The accompanying interim consolidated statements for Diamcor Mining Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the March 31, 2008 audited financial statements. Only changes in accounting information have been disclosed in these interim financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

# DIAMCOR MINING INC.
## CONSOLIDATED BALANCE SHEETS

| | December 31 2008 | March 31 2008 Audited |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Cash and cash equivalents | $ 366,912 | $ 188,218 |
| Accounts receivable | 9,468 | 8,010 |
| Loan receivable | - | 47 |
| | 376,380 | 196,275 |
| INVESTMENTS | 3 | - |
| REHABILITATION TRUST FUND (Note 3) | 35,258 | 33,940 |
| PROPERTY, PLANT AND EQUIPMENT (Note 4) | 169,280 | 205,039 |
| | $ 580,921 | $ 435,254 |
| **LIABILITIES** | | |
| **CURRENT** | | |
| Accounts payable | $ 19,854 | $ 64,797 |
| Taxes payable | 18,732 | 18,031 |
| Deposits (Note 16) | 585,288 | - |
| Current portion of long term debt (Note 5) | 655 | 2,542 |
| | 624,529 | 85,370 |
| LONG TERM DEBT ( Note 5) | 9,498 | 9,505 |
| ASSET RETIREMENT OBLIGATION (Note 7) | 305,191 | 298,475 |
| | 939,218 | 393,350 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 8) | 7,921,071 | 7,732,283 |
| Contributed surplus (Note 9) | 1,436,107 | 1,436,107 |
| Deficit | (9,715,475) | (9,126,486) |
| | (358,297) | 41,904 |
| | $ 580,921 | $ 435,254 |

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

COMMITMENTS (Note 15)

On behalf of the board

"Dean Taylor" Director

"Sheldon Nelson" Director

DIAMCOR MINING INC.

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS, AND DEFICIT

| | For The Three Months Ended December 31, 2008 | For The Three Months Ended December 31, 2007 | For The Nine Months Ended December 31, 2008 | For The Nine Months Ended December 31, 2007 |
|---|---|---|---|---|
| SALES | $ - | $ - | $ - | $ - |
| COST OF SALES | 33,836 | 74,923 | 60,246 | 120,686 |
| GROSS PROFIT (LOSS) | (33,836) | (74,923) | (60,246) | (120,686) |
| EXPENSES | | | | |
| Accretion and amortization | 10,623 | 17,771 | 36,825 | 50,840 |
| Consulting fees | 5,756 | 12,895 | 49,644 | 132,989 |
| Insurance | 5,375 | 4,305 | 11,671 | 17,717 |
| Interest and bank charges | 5,430 | 2,623 | 8,803 | 4,773 |
| Management fees | 11,025 | 13,059 | 34,749 | 40,257 |
| Office | 16,181 | 19,448 | 76,824 | 95,565 |
| Professional fees | 50,496 | 32,698 | 103,374 | 79,257 |
| Promotion and investor relations | 2,173 | 13,237 | 9,769 | 27,242 |
| Salaries and wages | 65,247 | 50,001 | 195,952 | 129,597 |
| Stock based compensation | 113,788 | - | 113,788 | 184,450 |
| Transfer agent and regulatory fees | 2,923 | 6,048 | 12,366 | 18,854 |
| Travel | 4,724 | 42,519 | 47,808 | 80,550 |
| | 293,741 | 214,604 | 701,573 | 862,091 |
| LOSS FROM OPERATIONS | $ (327,577) | $ (289,527) | $ (761,819) | $ (982,777) |
| OTHER INCOME AND EXPENSES | | | | |
| Interest and other Income | 56,151 | (14,585) | 170,829 | 37,430 |
| Loss on sale of assets | (9,056) | - | (9,056) | - |
| Foreign exchange gain (loss) | 8,951 | 3,422 | 11,059 | (8,464) |
| | 56,046 | (11,163) | 172,832 | 28,966 |
| NET LOSS AND COMPREHENSIVE LOSS | $ (271,531) | $ (300,690) | $ (588,987) | $ (953,811) |
| Deficit, beginning of year | (9,443,944) | (8,514,560) | (9,126,488) | (7,861,439) |
| Deficit, end of period | $ (9,715,475) | $ (8,815,250) | $ (9,715,475) | $ (8,815,250) |
| Loss per share - basic (Note 8) | $ (0.03) | $ (0.04) | $ (0.07) | $ (0.12) |

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

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

| | For The Three Months Ended December 31, 2008 | For The Three Months Ended December 31, 2007 | For The Nine Months Ended December 31, 2008 | For The Nine Months Ended December 31, 2007 |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net loss and comprehensive loss | $ (271,531) | $ (300,690) | $ (588,987) | $ (953,811) |
| Items not affecting cash | | | | |
| Accretion and amortization | 10,623 | 17,771 | 36,825 | 50,840 |
| Stock based compensation | 113,788 | (14,400) | 113,788 | 170,050 |
| Foreign exchange (gain) | (8,972) | (3,422) | (11,080) | 8,464 |
| | 115,439 | (51) | 139,533 | 229,354 |
| | (156,092) | (300,741) | (449,454) | (724,457) |
| Changes in non-cash working capital | | | | |
| Accounts receivable | 13,533 | (2,785) | (1,262) | 22,498 |
| Accounts payable | (79,422) | (15,345) | (45,991) | (43,282) |
| Asset retirement obligation | 5,855 | - | 5,855 | - |
| Prepaid expenses | - | 37,500 | - | 38,502 |
| | (60,034) | 19,370 | (41,398) | 17,718 |
| Cash flow used by operating activities | (216,126) | (281,371) | (490,852) | (706,739) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| (Purchase) disposal of property, plant and equipment | (11,009) | (38,088) | - | (91,472) |
| Cash flow from (used by) investing activities | (11,009) | (38,088) | - | (91,472) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Issuance (repayment) of long term debt | (647) | 12,652 | (1,894) | 12,652 |
| Share deposits | 200,726 | | 585,288 | |
| Proceeds from issuance of share capital | - | 144,610 | 75,000 | 655,860 |
| Cash flow from financing activities | 200,079 | 157,262 | 658,394 | 668,512 |
| Effect of change in exchange rate for cash | 8,783 | 12,146 | 11,152 | (1,561) |
| Increase (decrease) in cash and cash equivalents | (18,273) | (150,051) | 178,694 | (131,260) |
| Cash and cash equivalents - beginning of year | 385,185 | 415,252 | 188,218 | 396,461 |
| Cash and cash equivalents - end of period | $ 366,912 | $ 265,201 | $ 366,912 | $ 265,201 |

SUPPLEMENTARY CASH FLOW INFORMATION (Note 14)

SIGNIFICANT NON CASH TRANSACTIONS ARE DISCLOSED IN NOTES 8,10 AND 11

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Diamcor Mining Inc. (the “Company”) was incorporated under the Company Act of British Columbia. Its principal business activity is the production of diamonds in South Africa through its subsidiaries So Ver Mine (Pty) Ltd. (“So Ver”), Ongoza Mining and Exploration (Pty) Ltd. DMI Minerals South Africa (Pty) formally Blue Dust 25 (Pty) Ltd, DMI Diamonds South Africa (pty) Ltd. (incorporated in 2008) and Jagersfontain Diamond Mining Company (pty) Ltd. (incorporated in 2008).

On August 30, 2007, the Company completed a non-brokered private placement financing of $500,000.00. The private placement consisted of the sale of 1,000,000 units at a price of $0.50 per unit. Each unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire one additional common share at an exercise price of $0.75 for a period of two years following the closing date.

During the year ended March 31, 2007 the Company ceased its production activities at So Ver and accordingly recorded the remaining depletion in respect of its mineral rights on properties in South Africa.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next fiscal year. The Company has incurred losses since inception and expects to incur further losses in the development of its business. The Company’s ability to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing to meet its obligations and repay its liabilities arising from normal operations as they fall due. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions to continue the Company’s operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to 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. These financial statements do not reflect the adjustments or reclassifications of assets and liabilities which would become necessary if the Company were unable to continue its operations.

| | December 31 2008 | March 31 2008 |
|---|---|---|
| Deficit | $ (9,715,475) | $ (9,126,486) |
| Working capital | $ (248,149) | $ 110,094 |

## 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) using the following significant accounting policies:

### Principles of consolidation

These consolidated financial statements include the accounts of the Company, its 74% owned subsidiary Ongoza Mining & Exploration (Pty) Ltd. (formerly Zelpy 1623 (Pty) Ltd.), its wholly owned subsidiaries DMI Minerals South Africa (Pty) Ltd (formerly Blue Dust 25 (pty) Ltd., So Ver Mine (Pty) Ltd., DMI Diamonds South Africa (pty) Ltd. and Jagersfontain Diamond Mining Company (pty) Ltd. All significant inter-company balances and transactions have been eliminated. The non-controlling interest has not been adjusted for due to the deficit in Ongoza Mining & Exploration (Pty) Ltd.

### Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less. As at December 31, 2008 and March 31 2008, there were no short-term investments included in cash and cash equivalents.

### Inventory

Inventory, which includes rough diamond consumables, are stated at the lower of cost, cost of production or estimated net realizable value. Cost is determined according to the first in first out method. Net realizable value is the estimated selling price in the ordinary course of business less completion and selling expenses.

### Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized either using the straight-line method over the estimated useful lives of the individual assets (Property, plant and equipment) or on a declining basis (Office equipment) at the following annual rates:

| | |
|---|---|
| Office equipment | 20 - 45% |
| Property, plant and equipment | 15% |

### Long-lived assets

Management tests the recoverability of long-lived assets whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Once an impairment loss is recognized, the adjusted carrying amount becomes the new cost basis. An impairment loss recognized by the Company is not reversed if the fair value subsequently increases. Management estimates future cash flows in order to test the recoverability of a long-lived assets held by the Company including only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

### Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or where management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold. The recorded cost of mineral property interests is based on cash paid and the assigned value of share consideration costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued from previous page)

### Cost of maintaining mineral properties

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

### Revenue Recognition

Sales are recognized upon delivery of products (primarily rough cut diamonds) and customer acceptance. Sales are shown net of sales taxes and trade discount. The Company had no sales during the nine months ended December 31, 2008.

### Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollar equivalents using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Exchange gains or losses arising on translation of foreign currency items are included in operating results.

### Stock-based compensation

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

### Future income taxes

Future income taxes are calculated using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

### Loss per share

The losses per share figures are calculated using the weighted monthly average number of shares outstanding during the respective years. The calculation of diluted earnings per share figures under the Treasury Stock Method considers the potential exercise of outstanding share purchase options and warrants to the extent each option, warrant or contingent issuance was dilutive. Fully diluted earnings per share are not disclosed where the effect of options and warrants is anti-dilutive.

### Asset Retirement Obligation

The Company recognizes the fair value of its asset retirement obligation ("ARO") in the period in which it is incurred and when a reasonable estimate of fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is amortized at a reasonable rate based on the useful life of property and equipment. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revision to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued from previous page)

### Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. The amounts recorded for inventory, depreciation of property, plant and equipment, assessment of impairment of long-lived assets and the provisions for asset retirement obligation are based on estimates. Future income taxes are calculated using tax rates based on the estimated timing of the reversal of temporary differences between accounting and tax values of certain assets and liabilities and are subject to a valuation allowance. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material if actual results differ from these estimates. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

### Financial Instruments

Effective April 1, 2007, the Company adopted the recommendations from the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 1530, Comprehensive Income; along with all of the consequential amendments to other Handbook Sections related to these Sections. Section 1530 Comprehensive Income establishes standards for reporting and displaying certain gains and losses, such as unrealized gains and losses related to derivative instruments, outside of net income, in a statement of comprehensive income. Section 3250 of the CICA Handbook was replaced by Section 3251 Equity which establishes standards for the presentation of equity and changes in equity, including changes arising from those items recorded in comprehensive income. Under Section 3855, financial assets and financial liabilities are initially recognized at fair value and are subsequently measured based on their classification. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. The classification generally cannot be changed subsequent to the designation at initial recognition. Management determined that there was no adjustment required to the consolidated financial statements on the adoption of these new standards.

### Held for Trading

Financial assets that are purchased and held with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in earnings during the period. Cash and cash equivalents and the rehabilitation trust fund are classified as held for trading as these instruments are highly liquid are readily convertible to known amounts of cash and are so near to maturity that there is no significant risk of changes in fair value. The Company may upon initial recognition designate a financial asset or liability as held for trading other than financial instruments whose fair value cannot be reliably determined and financial assets transferred in a related party transaction that were not classified as held for trading before the transaction.

### Available-for-Sale

Financial assets either designated as available-for-sale or not designated to one of the other categories are classified as available-for-sale. These assets are accounted for at fair value with changes in fair value recognized in other comprehensive income. When a decline in fair value is determined to be other than temporary, the cumulative loss included in other comprehensive income is removed and is recognized in net earnings. Gains and losses realized on the disposal of available for sale securities are recognized in net earnings. No financial assets are currently classified as available for sale.

### Held to Maturity

Securities that have a fixed maturity date and which the Company has the intent and ability to hold to maturity are classified as held to maturity. Held to maturity financial assets are accounted for at amortized cost using the effective interest method. No financial assets are currently classified as held to maturity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued from previous page)

### Loans and Receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to pay on a specified date or dates, or on demand, usually with interest. These instruments are initially recorded at fair value and are subsequently measured at amortized cost. Accounts receivable and loans receivable are designated as “loans and receivables”.

### Other Liabilities

Financial liabilities that have not been classified as held for trading are classified as other liabilities and are accounted for at amortized cost. Accounts payable and long-term debt have been classified as other liabilities.

### Recent Accounting Pronouncements Not Yet Adopted

The CICA issued new accounting standards, CICA Accounting Standard Handbook Section 3862, “Financial Instruments - Disclosures” and Section 3863 “Financial Instruments – Presentation”. These standards require entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments to the entity’s financial position and performance. It also requires that entities disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks. The standards establish presentation guidelines for financial instruments and non-financial derivatives and deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This standard is effective for fiscal years beginning on or after October 1, 2007. Increased disclosure will be required on the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Handbook Section 1535 Capital Disclosures establishes standards about disclosing information about an entity’s objectives, policies, and processes for how it manages its capital. A Company must also disclose qualitative data about what the entity regards as capital; and whether the Company has complied with any capital requirements and if not, the consequences of such non-compliance.

CICA Handbook Section 3031 Inventories replaces corresponding Section 3030 and establishes new standards for the measurement and disclosure of inventories. The new Section prescribes that inventories should be measured at the lower of cost and net realizable value and provides guidance on the determination of cost. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect the adoption of this new standard to have a material impact on its consolidated financial statements.

The Canadian Accounting Standards Board has now confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required in 2011 for publicly accountable, profit oriented enterprises. IFRS will replace current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS effective January 1, 2011 and will be required to provide information for IFRS for the comparative period in 2010. Under IFRS, there is significantly more disclosure required, specifically for quarterly reporting. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. The Company is currently evaluating the impact of adopting IFRS.

## 3. REHABILITATION TRUST FUND

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| Deposit at Department of Minerals and Energy in South Africa for Rehabilitation Costs | $ 35,258 | $ 33,940 |

## 4. PROPERTY, PLANT AND EQUIPMENT

| | December 31 2008 | | | March 31 2008 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Property, plant and equipment | 550,548 | 381,268 | 169,280 | 556,144 | 351,105 | 205,039 |

As disclosed in Note 1, during the year ended March 31, 2007, the Company ceased operations at So Ver and accordingly fully amortized the balance of the amounts capitalized to plant, property and equipment in respect of the asset retirement obligation. These properties are encumbered with a bond in favor of ABSA bank of South Africa to an amount of $24,319 for the purpose of ABSA providing guarantees to the electricity supplier.

## 5. LONG TERM DEBT

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| Leasehold improvement loan payable in monthly installments of $283.38 including interest at 8.00%, unsecured, due May 2012, net book value of the leasehold improvements are $28,125 | $10,153 | $12,047 |
| Less current portion | (655) | (2,542) |
| Total | $9,498 | $9,505 |

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

| | |
|---|---|
| 2008-2009 | 655 |
| 2009-2010 | 2,750 |
| 2010-2011 | 2,975 |
| 2011-2012 | 3,218 |
| 2012-2013 | 555 |

## 6. MINERAL PROPERTIES

### Title to mineral properties

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mining properties. The Company has diligently investigated rights of ownership of all of the mineral concessions in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee to title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects. No new rights were obtained in the nine months ended December 31, 2008.

As discussed in Note 1, during the year ended March 31, 2007, the Company ceased operations at So Ver and accordingly fully depleted its existing mineral rights with respect to this area.

## 7. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all mines and facilities, estimated costs to reclaim and abandon the mines and facilities and estimate timing of the costs to be incurred in future periods. The Company has estimated the net present value of its total asset retirement obligation to be $305,191 ($298,475 at March 31, 2008). The majority of these costs are expected to be incurred after 2009. An inflation rate of 3% (3% in fiscal 2008) was used to calculate the net present value of the asset retirement obligation.

Due to the cessation of its operations at So Ver (see Note 1) in the prior year, the Company revised its estimate of the timing of the obligation and increased the accretion in the current year. In accordance with the recommendations of Section 3110 – Asset Retirement Obligations any upward revision due to revisions in the amount of undiscounted estimated cash flows are discounted using the current credit-adjusted risk-free rate of 12%. This change is accounted for as a change in estimate in accordance with the standard and accordingly the increase in accretion is recognized prospectively.

As disclosed in Note 3, an amount equivalent to $35,258 ($ 33,940 at March 31 2008) has been deposited with the Department of Minerals and Energy in South Africa in respect of rehabilitation costs expected to be incurred by the Company.

The following table reconciles the Company's total asset retirement obligation:

| | December 31 2008 | March 31 2008 |
|---|---|---|
| Balance, beginning of year | $ 298,475 | $ 289,782 |
| Accretion | 6,716 | 8,693 |
| Balance, end of period or year | $ 305,191 | $ 298,475 |

## 8. SHARE CAPITAL

Authorized:

Unlimited common voting shares, no par value

| | Number of Shares restated | Amount |
|---|---|---|
| Issued: | | |
| Balance, March 31, 2007 | 7,013,788 | $ 6,774,973 |
| Issued during fiscal 2008: | | |
| Private placement (a) | 1,000,000 | 500,000 |
| Settlement of debt (b) | 68,017 | 40,810 |
| Exercise of warrants (c) | 458,334 | 123,750 |
| Exercise of options (d) | 330,000 | 292,750 |
| Balance, March 31, 2008 | 8,870,139 | $ 7,732,283 |
| Issued during fiscal 2009: | | |
| Exercise of warrants (e) | 277,778 | 75,000 |
| Compensation shares (f) | 568,940 | 113,788 |
| Balance, December 31, 2008 | 9,716,857 | $ 7,921,071 |

Included in issued capital stock are 1,668 common shares held in escrow as required by the regulatory authorities. The weighted average number of shares outstanding for the nine month period was 9,203,551 (7,924,580 in fiscal year 2008).

(a) Completed on August 30, 2007 as further disclosed in Note 1 to these consolidated financial statements.

(b) 68,017 shares for settlement of $40,810 of payables to directors at a share price approximately equal to the market price at the time of settlement

(c) 458,334 warrants exercised at a price of $0.27

(d) 125,000 options at $0.36, 65,000 options exercised at $0.50 by directors, 140,000 options exercised at $0.36 by employees

(e) 277,778 warrants exercised at a price of at $0.27

(f) 568,940 shares issued at a price of $0.20 to directors and management

## 8. SHARE CAPITAL (continued from previous page)

### Warrants

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

| | December 31, 2008 | | March 31, 2008 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 4,222,364 | $ 0.28 | 3,734,198 | $ .28 |
| Warrants Granted | - | - | 1,000,000 | $ 0.75 |
| Warrants Expired | - | - | (53,500) | $1.30 |
| Warrants Exercised | (277,778) | $ 0.27 | (458,334) | $ 0.27 |
| Outstanding | 3,944,586 | $ 0.39 | 4,222,364 | $ 0.38 |
| Exercisable | 3,944,586 | $ 0.39 | 4,222,364 | $ 0.38 |

The following warrants were outstanding at December 31, 2008:

| | | |
|---|---|---|
| 2,041,666 | $ 0.27 | February 8, 2009 |
| 902,920 | $ 0.27 | February 27, 2009 |
| 1,000,000 | $ 0.75 | August 30, 2009 |

## 8. SHARE CAPITAL (continued from previous page)

### Stock options

The Company adopted a formal stock option plan in September 2008 and follows the TSX Venture Exchange (the "Exchange") policy under which it is authorized to grant options to directors and employees to acquire up to 10% of its issued and outstanding common stock. Under the policy, the exercise price of each option equals the market price of the Company's stock, less applicable discounts permitted by the Exchange, as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

The following table summarizes the activity with respect to options granted and exercised during the year. The activity for the prior year has been restated for the reverse share split as described above.

| | December 31 2008 | | March 31 2008 | |
|---|---|---|---|---|
| | Number of options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 817,500 | $ 0.56 | 636,465 | $0 .77 |
| Options Granted | - | - | 677,500 | $ 0.50 |
| Options Exercised | - | - | (330,000) | $ 0.39 |
| Options Expired | 50,000 | $ 0.50 | (166,465) | - |
| Outstanding, end of period | 767,500 | $ 0.56 | 817,500 | $ 0.56 |
| Exercisable, end of period | 767,500 | $ 0.56 | 817,500 | $ 0.56 |

The following stock options were outstanding at December 31, 2008:

| Number of options outstanding and exercisable | Exercise Price | Weighted average remaining life | Expiry date |
|---|---|---|---|
| 90,000 | $ 1.20 | 2.25 | April 6, 2011 |
| 115,000 | $ 0.36 | 3.25 | March 1, 2012 |
| 182,500 | $ 0.50 | 3.75 | September 17, 2012 |
| 380,000 | $ 0.50 | 4.25 | March 17, 2013 |

## 8. SHARE CAPITAL (continued from previous page)

### Stock-based compensation

The Company has recognized $ 113,788 in stock based compensation in the nine months ended December 31, 2008 ($325,050 in fiscal year 2008).

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of stock options granted during the year:

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| Risk-free interest rate | - | 3.99% |
| Expected life of options | - | 5 years |
| Annualized volatility | - | 219% |
| Dividend | - | 0% |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimated, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

## 9. CONTRIBUTED SURPLUS

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| Balance, beginning of year | $ 1,436,107 | $ 1,275,907 |
| Stock-based compensation | - | 325,050 |
| Exercise of options | - | (164,850) |
| Balance | $ 1,436,107 | $ 1,436,107 |

## 10. RELATED PARTY TRANSACTIONS

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

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| Salaries and consulting | $ 208,286 | $ 210,511 |
| Office | $ - | $ - |

## 10. RELATED PARTY TRANSACTIONS (continued from previous page)

These transactions were in the normal course of operations and were measured at the exchange amounts, which is the amount of consideration established and agreed to by the related parties. As at December 31, 2008, the Company owed $ 955 ($ 990 at March 31 2008) to directors of the Company and its subsidiaries, companies controlled by a director, an individual related to a director and to former directors. The fair value of amounts due to or from related parties cannot be determined as there are no specific terms of repayment and no interest is charged.

Additional related party transactions are disclosed in Note 8 to these consolidated financial statements.

## 11. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported income taxes (recovery) is as follows:

| | March 31 2008 | March 31 2007 |
|---|---|---|
| Net loss for year before taxes | $ (1,286,083) | $ (919,528) |
| Computed taxes recovered at statutory rates | $ (405,116) | $ (312,056) |
| Non-taxable items | 146,280 | 120,620 |
| Change in rates | 165,333 | - |
| Change in valuation allowance | 17,714 | 273,209 |
| Other | 54,488 | (33,714) |
| Income tax (recovery) | $ (21,301) | $ 48,059 |

The significant components of the Company's future tax assets (liabilities) are as follows:

| | March 31 2008 | March 31 2007 |
|---|---|---|
| Property, plant and equipment | $ 92,679 | $ 101,151 |
| Mineral property expenditures | 9,763 | 15,959 |
| Non-capital losses carry forward | 975,365 | 920,098 |
| | 1,077,807 | 1,037,208 |
| Less: valuation allowance | (1,077,807) | (1,060,093) |
| | $ - | $ (22,885) |

## 11. INCOME TAXES (continued from previous page)

The Company had the following estimated tax pool balances at March 31, 2008:

| | 2008 | 2007 |
|---|---|---|
| Canadian Exploration Expense | $ 4,605 | $ 4,605 |
| Canadian Development Expense | 31,556 | 45,080 |
| Undepreciated Capital Cost | 249,820 | 176,243 |
| Non-capital loss carry-forward | $ 3,612,462 | $ 2,864,564 |

The Company has available for deduction against future taxable income non-capital losses of approximately $3,612,462 at March 31, 2008 ($2,864,564 in 2007) which includes losses in its foreign subsidiaries of $314,669 ($16,142 in 2007). These losses, if not utilized, will expire commencing 2008. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements due to the uncertainty of their ability to be realized.

In assessing the ability of future tax assets to be realized, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. A valuation allowance has been provided against all net future tax assets, as realization of such net assets is uncertain.

## 12. SEGMENTED INFORMATION

Details of identifiable assets by geographic segments are as follows:

| | Total Assets | Property, Plant and Equipment | Cash and Equivalents | Other Assets |
|---|---|---|---|---|
| December 31, 2008 | | | | |
| Canada | $ 351,546 | $ 61,171 | $ 282,932 | $ 7,443 |
| South Africa | 229,375 | 108,109 | 83,980 | 37,286 |
| | $ 580,921 | $ 169,280 | $ 366,912 | $ 44,729 |
| March 31, 2008 | | | | |
| Canada | $ 190,266 | $ 76,407 | $ 111,562 | $ 2,297 |
| South Africa | 244,988 | 128,632 | 76,656 | 39,700 |
| | $ 435,254 | $ 205,039 | $ 188,218 | $ 41,997 |

During the nine months ended December 31, 2008, the Company had $2,500 ($87,986 in fiscal 2008 all of which were part of the Canadian segment of operations.) in capital expenditures

## 12. SEGMENTED INFORMATION (continued from previous page)

Details of losses from operations by geographic segments are as follows:

| | Canada | South Africa | Total |
|---|---|---|---|
| Sales | $ - | $ - | $ - |
| Operating costs | - | (60,246) | (60,246) |
| Amortization | (24,453) | (12,372) | (36,825) |
| Other items | (468,695) | (23,221) | (491,916) |
| Loss for year ended December 31, 2008 | $ (493,148) | $ (95,839) | $ (588,987) |
| Sales | - | - | - |
| Operating costs | - | (137,307) | (137,307) |
| Amortization | (23,374) | (40,406) | (40,406) |
| Other Items | (1,070,501) | (14,765) | (14,765) |
| Provision for Income tax | - | 21,301 | 21,301 |
| Loss for period ended March 31, 2008 | $ (1,093,875) | $ (171,177) | $ (1,265,052) |

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by management, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mining sector. Due to the geographic and political diversity, the Company's mining operations are decentralized whereby mining managers are responsible for business results and regional corporate offices provide support to the mining programs in addressing local and regional issues. The Company's operations are therefore segmented on a geographical basis. The Company's mining properties are all located in South Africa.

## 13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents accounts receivable, accounts payable and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values due to the short term maturities of these items, except for the amounts due to related parties which are disclosed in Note 10.

The Company is exposed to credit risk only with respect to uncertainties as to timing and collectability of receivables. The Company mitigates credit risk through standard credit and reference checks. The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company's subsidiaries in South Africa operate using principally the US Dollar and the South African Rand and as such may be negatively affected by fluctuations in foreign exchange rates when translating from the currency of measurement of the Company's subsidiary to the Company's reporting currency. The Company's monetary assets and liabilities denominated in foreign currency include cash at bank in the amount of $83,880 ($76,656 March 31, 2008), accounts receivable in the amount of $7,374 ($2,839 March 31, 2008), the rehabilitation trust fund in the amount of $35,258 ($33,940 March 31, 2008), accounts payable in the amount of $17,265 ($38,105 March 31, 2008) accrued liabilities in the amount of $ nil ($3,786 March 31, 2008) and taxes payable in the amount of $18,732 ($18,031 March 31, 2008).

Management has identified and classified all financial assets and liabilities in accordance with Section 3855 of the CICA Handbook. Management has determined that none of the Company's financial assets or liabilities which would require revaluation have book values which differ from their fair value. The Company is therefore reporting no difference between net income (loss) and comprehensive income (loss).

## 14. SUPPLEMENTARY CASH FLOW INFORMATION

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| Interest paid | $ 662 | $ 130 |
| Income taxes paid | $ - | $ - |

Cash and cash equivalents are comprised of cash held with various financial institutions.

## 15. COMMITMENTS

The Company has a commitment to lease office space at a rate of $ 2,765 per month. The lease expires in May, 2012. The minimum lease payments under this lease are $33,180 per year.

## 16. DEPOSITS

Amounts held for purchase of common stock not issued.

## 17. SUBSEQUENT EVENTS

On January 20 the company announced it had complete a private placement of 2,121,250 units at a price of $0.30 per unit, for total gross proceeds of $636,375 Each unit will consist of one common share and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire one additional common share at an exercise price of $0.50 per share until the close of business on January 7, 2011

2,041,666 warrants set to expire on February 8, 2009 and 902,920 warrants set to expire on February 27, 2009 were granted an exchange approved extension to August 30, 2009.