

**DIAMCOR MINING INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2005**

**LANCASTER & DAVID**  
**CHARTERED ACCOUNTANTS**

***Incorporated Partners***  
David E. Lancaster, CA  
Michael J. David, CA

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**AUDITOR'S REPORT**

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To the Shareholders of Diamcor Mining Inc.

We have audited the consolidated balance sheets of Diamcor Mining Inc. as at March 31, 2005 and 2004 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

***/s/ Lancaster & David***

CHARTERED ACCOUNTANTS

Vancouver, BC  
July 20, 2005

**DIAMCOR MINING INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT MARCH 31**

	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (Note 13)	\$ 201,231	\$ 78,580
Receivables	34,226	23,261
Taxes recoverable	20,323	28,694
Inventory	68,155	47,875
Prepaid expenses	<u>10,641</u>	<u>8,100</u>
	<u>334,576</u>	<u>186,510</u>
<b>Rehabilitation Trust Fund</b> (Note 4)	104,779	111,891
<b>Rehabilitation costs</b> (Note 5)	-	74,124
<b>Property, plant, and equipment</b> (Note 6)	291,223	221,797
<b>Mineral properties</b> (Note 7)	<u>345,497</u>	<u>575,828</u>
	<u>\$ 1,076,075</u>	<u>\$ 1,170,150</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 457,784	\$ 457,806
Loans payable (Note 9, 14)	603,110	627,077
Due to related parties (Note 11)	<u>466,267</u>	<u>387,043</u>
	<u>1,527,161</u>	<u>1,471,926</u>
<b>Liability to issue shares</b>	<u>-</u>	<u>13,000</u>
<b>Shareholders' equity (deficiency)</b>		
Capital stock (Note 10)	5,977,833	5,632,133
Contributed surplus (Note 10)	1,008,387	941,728
Deficit	<u>(7,437,306)</u>	<u>(6,888,637)</u>
	<u>(451,086)</u>	<u>(314,776)</u>
	<u>\$ 1,076,075</u>	<u>\$ 1,170,150</u>

**Nature and continuance of operations** (Note 1)

**Contingencies and legal matters** (Note 14)

**Subsequent events** (Note 17)

**On behalf of the Board:**

“Wayne Wolf”

Director

“Barry Conduit”

Director

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

**DIAMCOR MINING INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED MARCH 31**

	2005	2004
<b>Income</b>		
Sales	\$ 1,666,701	\$ 1,121,548
Cost of sales	<u>1,005,697</u>	<u>803,851</u>
<b>Income from operations</b>	<u>661,004</u>	<u>317,697</u>
<b>Expenses</b>		
Amortization	369,275	351,224
Bad Debts	-	4,711
Bank charges and interest	3,757	6,562
Consulting	124,420	139,251
Insurance	18,178	16,275
Foreign exchange loss	(34,265)	61,369
Management fees	145,357	143,818
Office, rent and miscellaneous	118,950	104,509
Professional fees	250,521	229,362
Promotion and investor relations	-	3,892
Stock-based compensation	66,659	48,736
Transfer agent and regulatory fees	19,058	18,348
Travel and accommodation	38,227	90,028
Wages and benefits	86,675	107,737
Web-site development	<u>2,861</u>	<u>3,430</u>
	<u>1,209,673</u>	<u>1,329,252</u>
<b>Loss before other items</b>	<u>(548,669)</u>	<u>(1,011,555)</u>
<b>Other Items</b>		
Gain on extinguishment of debt	-	52,795
Write-off of mineral properties (Note 7)	-	(10)
Write off of deferred exploration costs (Note 8)	<u>-</u>	<u>(18,850)</u>
	<u>-</u>	<u>33,935</u>
<b>Gain/(Loss) for the year</b>	(548,669)	(977,620)
<b>Deficit, beginning of year</b>	<u>(6,888,637)</u>	<u>(5,911,017)</u>
<b>Deficit, end of year</b>	<u>\$ (7,437,306)</u>	<u>\$ (6,888,637)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>
<b>Weighted average number of common shares outstanding</b>	<u>27,098,317</u>	<u>22,779,505</u>

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

**DIAMCOR MINING INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED MARCH 31**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (548,669)	\$ (977,620)
Items not affecting cash:		
Amortization	369,275	351,224
Write-off of accounts receivable	-	4,711
Write-off of mineral properties	-	10
Write-off of deferred explorations costs	-	18,850
Gain on release of shareholder loan	-	(52,795)
Stock-based compensation	66,659	48,736
Foreign exchange loss	(30,307)	61,369
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(10,965)	(25,567)
Decrease (increase) in taxes recoverable	8,371	(9,249)
(Increase) in prepaid expenses	(2,541)	(6,735)
(Increase) in inventory	(20,280)	(40,779)
(Decrease) increase in accounts payable and accrued liabilities	(22)	23,441
Increase in due to related parties	<u>79,224</u>	<u>516,129</u>
Net cash used in operating activities	<u>(89,255)</u>	<u>(88,275)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Liability to issue shares	-	13,000
Issuance of capital stock	<u>345,700</u>	<u>168,800</u>
Net cash provided by financing activities	<u>345,700</u>	<u>181,800</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to rehabilitation trust fund	-	(55,859)
Property, plant and equipment	<u>(133,794)</u>	<u>(9,711)</u>
Net cash used in investing activities	<u>(133,793)</u>	<u>(65,570)</u>
<b>Change in cash for the year</b>	122,651	27,955
<b>Cash, beginning of year</b>	<u>78,580</u>	<u>50,625</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 201,231</u>	<u>\$ 78,580</u>

**Supplemental disclosure with respect to cash flows** (Note 13)

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the Company Act of British Columbia. Its principal business activities include the production of diamonds in South Africa and the exploration of gold in Canada.

During 2003, the Company exercised its option to increase its percentage of ownership in So Ver Mine (Pty.) Ltd. ("So Ver") to 53.33%. The Company was required by February 15, 2003 to provide notice of its intention to exercise the next option to purchase the additional interest of 46.67% to give the Company a total of 100% ownership of So Ver. It did not execute this option due to evidence the Company received that the minority shareholder was allegedly selling higher grade diamonds which belonged to So Ver in another private company. In order to protect its interest, the Company issued a claim against the minority shareholder in the South African High Court. The court ruled in favor of the Company and ordered the minority shareholder to provide to the Company all information concerning So Ver's mine operations and issued a search warrant authorizing the confiscation of all diamonds and mine operating data relating to the So Ver mine located in the minority shareholder's personal residence and office, as well as the mine site. The court further ordered that a board of directors chaired by an independent third party continue to operate the mine and that the minority shareholder not be permitted to enter the mine site or to deal with any of So Ver's assets.

On April 8th 2005, the Company reached a final settlement agreement with the minority shareholder wherein both parties agreed to resolve all claims among themselves in exchange for the company paying \$150,000 to the minority shareholder for a 100% interest in the So Ver Mine (Pty.) Ltd., assignment of So Ver indebtedness to the minority shareholder and relinquishment of all other claims by the minority shareholder against Diamcor, So Ver and various other parties. As a result of this the Company obtained 100% of So Ver and will continue to operate the mine and expand its mining activities to other mineral properties in South Africa.

The Company is considered to be in the exploration stage with respect to its interests in mineral properties in Canada. The recoverability of the amounts comprising mineral properties and related deferred costs are dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of 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.

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	2005	2004
Deficit	\$ (7,437,306)	\$ (6,888,637)
Working capital (deficiency)	\$ (1,192,585)	\$ (1,285,416)

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Estimates, assumptions and measurement uncertainty**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company, its subsidiary Ongoza Mining & Exploration (Pty) Ltd. (formerly Zelpy 1623 (Pty) Ltd.), BlueDust (Pty) Ltd. and its 53.33% investment in So Ver. All significant inter-company balances and transactions have been eliminated.

### **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 or on a declining basis at the following annual rates:

Plant, Machinery and Equipment	15%
Earth Moving Equipment	25%
Mobile Cranes	15%
Trucks and Tractors	25%
Motor Vehicles	20%
Furniture Fittings and Office equipment	12.5%
Workshop Equipment and Tools	15%

### **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 an 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Mineral properties (continued)**

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 dependant 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.

**Deferred exploration and development costs**

The Company defers all exploration and development expenses relating to mineral properties and 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 over the proven reserves available on the related property following commencement of production.

**Values**

The amounts shown for mineral properties and deferred exploration costs represent costs to date, and do not necessarily represent present or future values.

**Cost of maintaining mineral properties**

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

**Environmental protection and rehabilitation costs**

Liabilities related to environmental protection and rehabilitation costs are accrued based on the Company's assessment of current environmental and regulatory requirements. These costs were amortized over two years on a straight line basis.

**Investments**

Investment in shares of associated companies, over which the Company has significant influence, are accounted for by the equity method, whereby the investment is initially recorded at cost and adjusted to recognize the Company's share of earnings or loss in the investment. Other long-term investments are carried at cost. If it is determined that the value of the investment is permanently impaired, it is written down to its estimated net realizable value.

**Revenue Recognition**

Sales are recognised upon delivery of products and customer acceptance or the performance of services. Sales are shown net of sales taxes and trade discounts.

**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.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Stock-based compensation**

The Company grants stock options under a fixed stock option plan in accordance with the TSX Venture Exchange policies (Note 10). Any consideration paid by directors and employees on exercise of stock options is credited to share capital. Effective January 1, 2004 the Company prospectively adopted the amended recommendations of the Canadian Institute of Chartered Accountants with respect to Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". The amended recommendations require the expensing of all stock-based compensation awards. Previously, the Company had followed the recommendations which encouraged, but did not require, the use of a fair value based method to account for stock-based compensation to employees. The adoption of this amended accounting policy has no cumulative effect on the prior period financial statements. Refer to Note 10.

**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. Refer to Note 12.

**Loss per share**

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective years. The calculation of fully 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.

**Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

**DIAMCOR MINING INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2005**

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**3. BUSINESS COMBINATION**

The Company entered into a share purchase agreement on November 8, 2000, which was amended on April 16, 2002, to purchase a 100% interest in So Ver. The Company paid \$100 to acquire its initial interest of 20%.

In September 2002, the Company exercised its first option to increase its percentage of ownership in So Ver from 20% to 53.33%. In accordance with the share purchase agreement the Company paid \$400,000 and received 33.33% of So Ver's issued and outstanding shares and an assumption of 53.33% of the minority shareholder's loan balance. The minority shareholder lent back \$250,000 as a development loan to So Ver. In order for the Company to purchase the remaining 46.67% of So Ver's issued and outstanding shares, it had until February 15, 2003 to pay an additional \$800,000. As outlined in Note 1, the Company did not exercise this option. The Company did not have access to the accounting records and the mine operations until late March 2003, when the South African high court ruled in favor of the Company granting them such access and barring the minority shareholder from entering into the mine site or dealing with any of So Ver's assets. Therefore, the date of acquisition for So Ver is March 31, 2003.

On April 8<sup>th</sup> 2005, the Company reached a settlement agreement with the minority shareholder and now owns 100% of the So Ver mine. The minority shareholder also assigned to the Company the outstanding shareholder's loan balance and development loans.

So Ver, a privately held South African company, owns the So Ver diamond mine and the rights to the So Ver tailings re-treatment diamond mine, located in the Kimberly area of South Africa. The acquisition has been accounted for using the purchase method. The amount paid to date of \$400,100 was allocated as follows:

Cash	\$	3,415
Receivables		50,204
Income tax receivable		19,445
Inventory		7,096
Rehabilitation costs		148,248
Capital assets		255,482
Mineral property		806,159
Accounts payable and accrued liabilities		(313,014)
Loans payable		<u>(576,935)</u>
	\$	<u>400,100</u>

In June 2004, \$155,255 of the loans were repaid.

**4. REHABILITATION TRUST FUND**

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	2005	2004
Deposit at Department of Minerals and Energy in South Africa for Rehabilitation Costs	\$ 52,309	\$ 55,859
Amount advanced to So Ver Rehabilitation Trust in respect of insurance policy premiums	<u>52,470</u>	<u>56,032</u>
	<u>\$ 104,779</u>	<u>\$ 111,891</u>

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**DIAMCOR MINING INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005

**5. REHABILITATION COSTS**

	2005	2004
Rehabilitation costs	\$ 148,248	\$ 148,248
Accumulated amortization	<u>(148,248)</u>	<u>(74,124)</u>
	\$ -	\$ 74,124

**6. PROPERTY, PLANT AND EQUIPMENT**

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 8,216	\$ 3,340	\$ 4,876	\$ 3,913	\$ 1,619	\$ 2,294
Property, plant and Equipment	<u>395,430</u>	<u>109,083</u>	<u>286,347</u>	<u>265,193</u>	<u>45,690</u>	<u>219,503</u>
	\$ 403,646	\$ 112,423	\$ 291,223	\$ 269,106	\$ 47,309	\$ 221,797

**7. 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 conveyancing 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.

	Balance April 1, 2004	Amortization	Balance March 31, 2005
So Ver Tailings Re-treatment Diamond Mine	\$ 575,828	\$ 230,331	\$ 345,497

**DIAMCOR MINING INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005

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7. **MINERAL PROPERTIES** (cont'd...)

**So Ver Tailings Re-treatment Diamond Mine**

As outlined in Note 3, the Company purchased a 53.33% interest in the So Ver diamond mine and the rights to the So Ver tailings re-treatment diamond mine, located in the Kimberly area of South Africa. On April 8<sup>th</sup> 2005, the Company obtained 100% ownership. The So Ver tailings re-treatment mine is currently operating.

**Merry Widow Property**

During fiscal 2003, the Company staked a mineral claim located in the Nanaimo Mining Division, British Columbia. During fiscal 2004, the Company allowed the claim to expire and accordingly all related costs of \$18,860 were written off to operations.

8. **DEFERRED EXPLORATION COSTS**

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	Merry Widow Property	2004	2005
Balance, beginning of year	\$ 18,850	\$ 18,850	\$ -
Write-off	<u>(18,850)</u>	<u>(18,850)</u>	<u>-</u>
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**DIAMCOR MINING INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005

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**9. LOANS PAYABLE**

	2005	2004
Development loan	\$ 250,000	\$ 250,000
Second loan	142,000	151,638
Retained loan	<u>211,110</u>	<u>225,439</u>
	\$ 603,110	\$ 627,077

Pursuant to the settlement agreement reached between the company and the minority shareholder on April 8<sup>th</sup>, 2005, these loans, which were repayable to the minority shareholder of So Ver were assigned to Diamcor Mining Inc. The loans were secured by a notarial bond on the moveable assets of So Ver which was also released as part of the settlement agreement. The loans were determined on the basis of a legal opinion received on the share purchase agreement, dated November 8, 2000 and amended April 16, 2002, between the Company and the minority shareholder of So Ver.

**Development loan**

The development loan occurred after the Company exercised its first option to purchase an additional 33.33% of So Ver. In accordance with the terms of the share purchase agreement, the minority shareholder lent back to So Ver \$250,000 as a development loan. The loan bears no interest and was to be repaid when the Company exercised its second option payment. As noted above this loan was assigned to the Company as part of the settlement reached in April 2005.

**Second loan**

The second loan is part of the original minority shareholder's loan that will be assumed by the Company after it has exercised its second option payment. The loan does not bear interest and had no fixed date for repayment. As noted above this loan was assigned to the Company as part of the settlement reached in April 2005.

**Retained loan**

The retained loan bears no interest and has no fixed date of repayment. As noted above this loan was assigned to the Company as part of the settlement reached in April 2005.

**DIAMCOR MINING INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005

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**10. CAPITAL STOCK**

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	Number of Shares	Amount
Authorized		
96,700,751 common voting shares, no par value		
Issued		
Balance, March 31, 2003	21,410,851	\$ 5,258,638
Issued during the year:		
Private placements	1,250,000	125,000
Exercise of warrants	365,000	43,800
Settlement of debt	<u>2,046,958</u>	<u>204,695</u>
Balance, March 31, 2004	25,072,809	\$ 5,632,133
Issued during the year:		
Private placements	3,275,000	327,500
Exercise of warrants	<u>140,000</u>	<u>18,200</u>
Balance, March 31, 2005	28,487,809	\$ 5,977,833

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Included in issued capital stock are 16,667 common shares held in escrow as required by the regulatory authorities. Subsequent to year end, and as part of the settlement agreement with the minority shareholder reached on April 8, 2005, 500,000 shares in the name of the minority shareholder are to be released back into treasury.

**DIAMCOR MINING INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2005**

**10. CAPITAL STOCK (cont'd...)**

**Warrants**

The following warrants were outstanding at March 31, 2005:

Number of Shares	Exercise Price	Expiry Date
1,250,000	\$0.10	May 29, 2005
50,000	\$0.10	February 24, 2006
1,775,000	\$0.11	June 1, 2006
1,500,000	\$0.10	December 16, 2006

**Stock options**

The Company adopted a formal stock option plan following the AGM in December 2003 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.

	2005		2004	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,507,280	\$ 0.14	1,959,343	\$ 0.15
Options granted	-	-	547,937	\$ 0.11
Options expired	(300,000)	\$ 0.11	-	-
Outstanding, end of period	2,207,280	\$ 0.14	2,507,280	\$ 0.14
Options exercisable, end of period	2,207,280	\$ 0.14	2,507,280	\$ 0.14
Weighted average fair value of options redated/granted		0.15		\$ 0.11

On April 30, 2004, 1,101,864 share options with an expiry date of May 21, 2004, were redated to expire on May 21, 2007 exercisable at a price of \$0.15 per share.

**DIAMCOR MINING INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**10. CAPITAL STOCK (cont'd...)**

The following stock options were outstanding at March 31, 2005:

Number of Shares – outstanding and exercisable	Exercise Price	Weighted average remaining life	Expiry Date
1,101,864	\$0.15	2.14	May 21, 2007
250,467	\$0.14	2.20	June 12, 2007
607,012	\$0.14	2.30	July 18, 2007
247,937	\$0.11	3.99	March 26, 2009

**Stock-based compensation**

The Company recognized in the year, stock based compensation in the amount of \$66,659 resulting from the re-dating of options in April 2004 and the cancellation of options which had previously been charged to operations in the prior fiscal year (2004 - \$48,736).

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

	2005	2004
Risk-free interest rate	2.65%	2.81%
Expected life of options	2 years	2 years
Annualized volatility	167%	168%
Dividend	0%	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.

**Contributed surplus**

	2005	2004
Balance, beginning of year	\$ 941,728	\$ 892,992
Stock-based compensation	<u>66,659</u>	<u>48,736</u>
Balance, end of year	\$ 1,008,387	\$ 941,728

**DIAMCOR MINING INC.**  
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**11. RELATED PARTY TRANSACTIONS**

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

	2005	2004
Management fees	\$ 75,000	\$ 75,000
Automobile allowance	4,500	4,799
Office, rent and miscellaneous	16,155	15,059

- b) Paid or accrued legal fees of Nil (2004 - \$6,606) to a law firm, of which a former director of the Company is the sole proprietor.
- c) Paid or accrued consulting fees of \$120,000 (2004 - \$120,000) to a director of the Company's subsidiaries, and \$54,000 to a relative of a director of the Company (2004 - \$76,000).
- d) Paid or accrued wages of \$32,526 (2004 - \$30,997) to a director of the Company.

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 March 31, 2005, the Company owed \$466,267 (2004 - \$387,043) 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.

**12. INCOME TAXES**

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

	2005	2004
Loss for the year	\$ (548,669)	\$ (977,620)
Computed taxes recovered at statutory rates	\$ (233,733)	\$ (416,467)
Difference in foreign tax rates	(68,112)	37,778
Non-taxable items	186,642	155,926
Deductible items	(852)	(852)
Unrecognized benefits of non-capital losses	<u>116,055</u>	<u>223,615</u>
Income tax recovery	\$ -	\$ -

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

	2005	2004
Property, plant and equipment	\$ 6,000	\$ (82,000)
Mineral property expenditures	248,000	150,000
Share issuance costs	2,000	3,000
Rehabilitation costs	-	68,000
Non-capital losses carryforward	<u>1,161,000</u>	<u>1,132,000</u>
	1,417,000	1,271,000
Less: valuation allowance	<u>(1,417,000)</u>	<u>(1,271,000)</u>
	\$ -	\$ -

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**12. INCOME TAXES (cont'd...)**

The Company has available for deduction against future taxable income non-capital losses of approximately \$2,539,450. These losses, if not utilized, will expire commencing in 2006. The Company also incurred losses for South African income tax purposes of R1,051,708 (approximately C\$204,500) which can be carried forward indefinitely to reduce taxable income in future years. 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 realizability.

In assessing the realizability of future tax assets, 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.

**13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

<b>SUPPLEMENTAL CASH INFORMATION:</b>	2005	2004
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	-	-
	<b>\$ -</b>	<b>\$ -</b>
<b>CASH &amp; CASH EQUIVALENTS ARE COMPRISED OF:</b>		
Cash on hand	\$ 120,286	\$ 30,895
Restricted cash – funds in trust	\$ 80,945	\$ 47,685
	<b>\$ 201,231</b>	<b>\$ 78,580</b>

There were no significant non-cash transactions for the year ended March 31, 2005.

Significant non-cash transactions for the year ended March 31, 2004 consisted of the Company:

- a) issuing 1,996,958 shares for debt totalling \$199,696; and
- b) issuing 50,000 units for debt totalling \$5,000.

**14. CONTINGENCIES AND LEGAL MATTERS**

On April 8th 2005, the Company reached a final settlement agreement with the minority shareholder. The claim stems from 2003, when the Company exercised its option to increase its percentage of ownership in So Ver Mine (Pty) Ltd. ("So Ver") to 53.33%. Under this agreement, the Company was required by February 15, 2003 to provide notice of its intention to exercise the next option to purchase the additional interest of 46.67% to give the Company a total of 100% ownership of So Ver. It did not execute this option due to evidence the Company received that the minority shareholder was allegedly selling higher grade diamonds which belonged to So Ver in another private company. In order to protect its interest, the Company issued a claim against the minority shareholder in the South African High Court. The court ruled in favor of the Company and ordered the minority shareholder to provide to the Company all information concerning So Ver's mine operations and issued a search warrant authorizing the confiscation of all diamonds and mine operating data relating to the So Ver mine located in the minority shareholder's personal residence and office, as well as the mine site. The court further ordered that a board of directors chaired by an independent third party continue to operate the mine and that the minority shareholder not be permitted to enter the mine site or to deal with any of So Ver's assets. In April 2005, the Company reached settlement with the minority shareholder over their legal dispute. Under the settlement, both parties agreed to resolve all claims among themselves in exchange for the Company paying \$150,000 to the minority shareholder for a 100% interest in the So Ver Mine (Pty) Ltd., assignment of So Ver indebtedness to the minority shareholder and relinquishment of all other claims by the minority shareholder against Diamcor, So Ver and various other parties. As a result of this, the Company obtained 100% of So Ver and will continue to operate the mine and expand its mining activities to other mineral properties in South Africa. The minority shareholder will release the Company from the shareholders loans and cede 100% share ownership to the Company. As at April 30, 2005 the Company had paid the sum required into a trust account pending final release from the minority shareholder.

**15. SEGMENTED INFORMATION**

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 Canada and South Africa.

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**15. SEGMENTED INFORMATION (cont'd...)**

Details of identifiable assets by geographic segments are as follows:

	Total Assets	Property, plant and equipment	Mineral Properties	Other Assets
March 31, 2005				
Canada	\$ 66,708	\$ 4,876	\$ -	\$ 61,831
South Africa	<u>1,009,367</u>	<u>286,347</u>	<u>345,497</u>	<u>377,523</u>
	<u>\$ 1,076,075</u>	<u>\$ 291,223</u>	<u>\$ 345,497</u>	<u>\$ 439,354</u>
March 31, 2004				
Canada	\$ 79,834	\$ 2,294	\$ -	\$ 77,540
South Africa	<u>1,090,316</u>	<u>219,503</u>	<u>575,828</u>	<u>294,985</u>
	<u>\$ 1,170,150</u>	<u>\$ 221,797</u>	<u>\$ 575,828</u>	<u>\$ 372,525</u>

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

	Canada	South Africa	Total
Sales	\$ -	\$ 1,666,701	\$ 1,666,701
Operating costs	-	(1,005,697)	(1,005,697)
Amortization	(1,721)	(367,554)	(369,275)
Other items	(613,663)	(226,735)	(840,398)
Loss for year ended March 31, 2005	<u>\$ (615,384)</u>	<u>\$ 66,715</u>	<u>\$ (548,669)</u>
Loss for year ended March 31, 2004	<u>\$ (591,591)</u>	<u>\$ (386,029)</u>	<u>\$ (977,620)</u>

**16. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, income tax receivable, amounts due from related parties, accounts payable and accrued liabilities, due to related parties and loans payable. 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, except for the loans payable which have no specific terms of repayment or interest rate.

The Company is exposed to credit risk only with respect to uncertainties as to timing and collectibility 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.

**17. SUBSEQUENT EVENTS**

In June 2005, 100,000 options at \$0.11 each were issued to an employee of the company. These options are for a 5 year term expiring June 28, 2010. Also in June, 100,000 warrants with an exercise price of \$0.10 per share were exercised.