



## **Management Discussion & Analysis**

**For the Year Ended March 31, 2019**

# **DIAMCOR MINING INC.**

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

**FOR THE YEAR ENDED MARCH 31, 2019**

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 Company") and its subsidiaries. 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, 2019, and the MD&A and audited consolidated financial statements for the year ended March 31, 2018. The effective date of this MD&A is July 29, 2019.

The audited consolidated financial statements for the year ended March 31, 2019 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 company listed on TSX Venture Exchange under the symbol DMI, and on OTC market OTCQB under the symbol DMIFF.**
  
- ▽ **Supplier of rough diamonds to the world market with established industry relationships and an experienced management team.**
  
- ▽ **Long-Term strategic alliance and financing with world famous New York based Tiffany & Co. Tiffany's owns 3,022,827 common shares of the Company.**
  
- ▽ **Krone-Endora at Venetia project acquired from De Beers represents a rare late-stage opportunity, with the potential for near-term production and long-term growth.**
  
- ▽ **Cash flowing from trial mining underway, current exercises are aimed at aiding the Company in arriving at initial production decisions in near-term.**
  
- ▽ **Positioned as one of the few companies with potential to supply rough diamonds to the world market at a time when rough diamond demand is expected to exceed supply due to declining output from existing sources and a lack of new discoveries.**

## HIGHLIGHTS

### Krone-Endora at Venetia Project

- ▽ **Project acquired from De Beers in a competitive process to achieve mandate of supporting junior mining and women in mining through the divestiture of non-core assets to qualified candidates with proven operational experience.**
- ▽ **Project covers an area of 5,888 hectares directly adjacent to De Beers' flagship Venetia Diamond Mine. Deposits are identified as being the result of the direct shift and subsequent erosion of material from Venetia to the lower surrounding areas including those of Krone and Endora.**
- ▽ **Significant infrastructure complete: ~20km of primary access roads, two deposit specific plants with targeted throughput of ~500 TPH, ~20km of water pipelines, lined water storage dams, ~13km main power line, backup generator power systems, worker housing, extensive operational equipment and infrastructure items in place to support project for the long-term.**
- ▽ **Nature of deposit allows for low-cost surface mining operation with a maximum depth of 15M, no blasting or underground operations. Deposit specific plants, high percentage of gem or near gem quality, large diamond potential, and significant future growth potential from surrounding areas.**
- ▽ **Ongoing trial mining exercises completed to March 31, 2019 have resulted in the incidental recovery and sale of 127,900 carats of rough diamonds generating revenue of (US) \$22,692,639 or (US) \$177.42 per carat. Largest individual rough diamond recovered to date - 91.7 carats.**
- ▽ **30-year mining right secured for initial area targeted (657.71 of 5,888 hectares), Water Use License secured, transition to large-scale trial mining underway.**

## **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 OTCQB 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. The Company acquired the Krone-Endora at Venetia project from De Beers, has established a long-term strategic alliance and secured 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 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 advanced this strategy by acquiring the Krone-Endora at Venetia project from De Beers Consolidated Mines Limited on February 28, 2011. The Krone-Endora at Venetia project consisted 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 over the entire area of 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 “Initial Technical Report”) which was filed by the Company on July 30, 2009 in conjunction with the acquisition. Based on the initial work completed to that date, the Initial Technical Report provided an inferred resource estimate of 54,258,600 tonnes of diamond bearing gravels, and 1.3 million carats of diamonds for the 310 hectare area of interest in that report. The Initial Technical Report also noted that based on the previous work programs 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 full extent to which this material may be present on the Krone and Endora properties currently is unknown. The Company’s near-term efforts are focused on the key areas of interest defined by the previous work and estimates outlined in the Initial Technical Report, and specifically those within the defined K1 area of the project, the procurement and installation of infrastructure and equipment required to support the further advancement of the project, subsequent trial mining and bulk sampling to better define the location and extent of the materials on both the Krone and Endora properties, and the completion of work required to support the filing of an updated Independent National Instrument 43-101 Technical Report (the “Updated Technical Report”) on April 28, 2015. The combined efforts and work underway are aimed at allowing the Company to secure data to aid it in arriving at initial 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 other known diamond mining regions. The Company believes its strategy will ultimately allow it to take advantage of a potential long-term trend of increasing rough diamond prices which many industry experts believe will ultimately 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. Additionally, it is widely accepted and documented that many existing diamond mines may be approaching the late stages of their expected life of mine, and current rough diamond production levels are expected to remain consistent at best, or potentially be reduced in the future. This dynamic, coupled with the fact few if any new large mines demonstrating an ability to meet projected future increasing demands have been identified or developed in many years and the fact that long lead times of +/-10 years are typically associated with bringing any large new diamond mine into production, combine to present a compelling opportunity for companies that have the ability to 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 into three distinct diamond project categories. The Krone-Endora at Venetia project 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 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. 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 currently 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.

Eluvial projects are similar in nature to alluvial projects with respect to production requirements, but significantly rarer and more unique due to the fact that 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 De Beers 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 (~3.5M – 2015), and independent references noting a high percentage of diamonds recovered as being classified as gem quality. The decision to transition to underground operations at Venetia was made by De Beers, and an estimated (US)\$2.1B capital expenditure is currently underway. These efforts are expected to extend the mine's life significantly.

**Tailings Re-Treatment Projects** - 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. The ability to use newer and more efficient processing plants and methods to re-process stockpiled kimberlite tailings from these mines to recover diamonds missed 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.

## 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 suitable costs and diamond yields, successful transition of these projects to full scale production, current and future rough diamond market prices, establishment of strategic relationships with reputable purchasing entities of rough diamonds serving global markets.

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 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 price recovery was approaching the previous all-time highs experienced in 2008 prior to the global financial crisis. This trend of steadily increasing rough diamond prices largely continued, and by the mid 2011 industry sources were reporting rough diamond prices above the 2008 pre-crisis highs. These highs were followed by periods of a weakening of prices in 2015/16. As of the end of 2018, and into 2019, rough prices for lower quality goods remained under pressure, with the overall potential for increasing rough diamond prices over the long-term possible for the supply/demand reasons set forth above. 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, 2019, 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., which serves as the Company's main corporate entity to support its South African projects, operations, initial exploration efforts, and the evaluation of all future projects. Below are brief descriptions of each of these assets.

**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 South African Black Economic Empowerment partner Nozala Investments (Pty) Ltd. (“Nozala”). The subsidiary was formed for the acquisition of projects which demonstrate 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 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. Despite the delays incurred by this, after 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 sub-division 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 Technical Report and the proposed source of the deposit's origin, that being the kimberlite pipes of De Beers Venetia mine. The transaction was ultimately 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 \$5.5M financing agreement with subsidiaries of New York based Tiffany & Co. Under the terms of the strategic agreement, Tiffany & Co. 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 not selected for purchase by Tiffany & Co. under the terms of their first right of refusal. To expedite the further advancement of the project, Tiffany and Co. Canada provided the Company with a second financing of \$4M on November 16, 2012.

The development of extensive infrastructure began at the project in April of 2011, along with preparations for the start of an extended drilling program, a planned bulk sampling program, and trial mining exercises as recommended by the Initial Technical Report. The completion of extended drilling on 558 targets and the recommended programs undertaken were designed to be a continuation of the work previously completed by De Beers and aimed at:

- assisting the Company in its determination of the location and construction of infrastructure for the project.
- assisting the Company in its determination of how best to proceed with the further evaluation of areas of the project previously explored.
- assisting the Company in identifying additional areas of interest not yet accounted for in the Initial Technical Report for future exploration.
- allow the Company to establish a current diamond price estimate for the project.
- advance the recommended work programs to support the filing of an Updated Independent Technical Report (filed on April 28, 2015).
- support the Company's bulk sampling and trial mining exercises.
- support the application and issuance of a Mining Right from the South African Department of Mineral Resources (granted on September 11, 2014).
- support the issuance of a Water Use License from the South African Department of Water Affairs (granted on April 11, 2016).

Collectively, efforts are aimed at allowing the Company to collect data and aid it in arriving at initial production decisions for the project.

Extensive infrastructure development including the design, development, and construction of two large modular processing plants have been completed to support the long-term development of the project.

Efforts to date have included:

- the clearing of 60km of temporary access roads to support the extended drilling program and the establishment of required infrastructure.



- the identification of areas to be potentially targeted for additional bulk sampling and trial mining exercises, and the location for the construction of the project's plant sites.
- the removal of +/-4,000 truckloads of material for the establishment of a quarry in the area selected for future trial mining exercises.
- the clearing of ~2 hectares for the construction of the plant site, the construction of fresh water and settling dams, the completion of civil engineering work, and the construction of a 5m raised wall around the plant site.
- the construction of ~20km primary access roads and bridges to support the long-term needs of the project.
- the installation of ~5km of high strength electrical security fencing, automated security gates, and security checkpoint facilities.
- extensive concrete work and infrastructure for the main treatment/processing plant, operational offices, and workshops.
- the installation of seven water pipelines totaling ~20km in length.
- the installation of a ~13km main power-line and backup diesel generators.
- design, development, installation and testing of the project's deposit specific in-field dry-screening and main treatment plants to support the stated objectives and continued advancement of the project

Due to the nature of the deposit, and specifically its high percentage of sand content, extensive consideration has been required and implemented in the development of the dry-screening and main treatment plants. A separate in-field dry-screening plant located near the quarry was developed to achieve the goal of dry-screening out fine materials to reduce operating costs, and to provide the additional benefit of reducing overall water consumption at the main treatment plant. The Company's dry screening plant includes a large modular in-field dry-screening system. The infrastructure includes a rotary trommel, Dabmar Bivitec dry-screening and resonance screening technology, extensive conveyor structures, collection bins, and other supporting infrastructure designed to screen non-diamond bearing material prior to the delivery for final processing at the main treatment plant. Over the past few years, the expansion of quarrying and dry-screening operations has been undertaken to provide for even greater efficiencies, volumes, and the further increase in the targeted removal of fines material from 45% to 60% of fines material removed through the dry-screening process. The main treatment plant has also undergone significant expansion and refinement with the addition of a specific large diamond recovery circuit, expanded x-ray flow sort technology and final recovery facilities.

In fiscal 2018, the testing and commissioning of these expanded quarrying and dry-screening operations indicated enhancement initiatives provided an increase in overall dry-screening capacities and operational efficiencies. However, the Company experienced problems in the recovery of waste water from the project's settling dams due to the increased volume of fines being liberated at the main treatment plant, when operating at high volume. This negatively impacted operations overall and the incidental recovery of diamonds during the fiscal year and into the first fiscal quarter of 2019, as operations and processing were periodically slowed or halted completely to reduce volumes of material being pumped into the project's rehabilitation/settling dams. Extensive testing of both the project's water and deposit material were completed. Based on the recommendations of Company consultants and industry experts, the Company elected to implement further refinements to the project's dry-screening plant to enhance the liberation and the removal of fines through added crushing and screening. Preparations for the installation of a paste thickener at the main treatment plant are underway to allow the Company to remove a majority of the remaining fines. Following the closing of the first tranche of a financing in June 2018, the first fiscal quarter of 2019, the Company finalized the above-noted enhancements to the project's dry-screening plant which enabled the resumption of processing of material in limited volumes to test the effectiveness of these initial refinements. The success of these refinements have enabled the Company to reduce both the size and capital expense associated with the previously recommended paste thickening infrastructure at the main treatment plant. Efforts on the finalization of this item continue to be advanced, after which, the Company plans to increase processing volumes at the project. All efforts underway are designed to support the further advancement of the project and the recommendations of the Updated Technical Report and aid the Company in arriving at initial production decisions for the project.

The Company has placed significant focus and emphasis on the successful closing, financing, and advancement of the Krone-Endora at Venetia project over a period of several 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.

## **MANAGEMENT AND CAPABILITIES**

There were no new appointments to the Company's management during the year ended March 31, 2019, and no changes to the Board of Directors. Mr. Dean H. Taylor remains a Director and the Company's President and Chief Executive Officer. 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 corporate 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 on potential projects. The Company has ongoing access to an established operational team of well-trained service providers and suppliers in South Africa.

## ***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. This partnership is currently reflected in the Diamcor South African subsidiary, DMI Minerals, 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. 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 are presented in IFRS, and all figures include the results of operations in South Africa.

<b>March 31, 2019 Fiscal Year</b>				
	Fourth Quarter March 31, 2019	Third Quarter December 31, 2018	Second Quarter September 30, 2018	First Quarter June 30, 2018
Gross Revenue	\$ 1,031,037	\$ 1,847,403	\$ 1,041,470	\$ 193,606
Total Expenses	2,187,466	2,723,051	1,470,758	1,684,759
Net (Loss) for Period	(1,094,889)	(861,883)	(417,368)	(1,479,140)
Net (Loss) per Share (Basic)	(0.01)	(0.01)	(0.01)	(0.02)
Cash Flow (Used in) Operations	(624,922)	(607,440)	(745,019)	(1,033,275)
Cash and Cash Equivalents (End of Period)	139,080	229,258	569,466	442,076
Assets	8,702,487	9,547,857	9,660,571	9,314,024
Dividends	Nil	Nil	Nil	Nil

<b>March 31, 2018 Fiscal Year</b>				
	Fourth Quarter March 31, 2018	Third Quarter December 31, 2017	Second Quarter September 30, 2017	First Quarter June 30, 2017
Gross Revenue	\$ 769,961	\$ 1,051,639	\$ 1,650,994	\$ 2,476,234
Total Expenses	2,406,706	2,162,954	2,660,800	3,133,043
Net (Loss) for Period	(1,223,303)	(1,097,412)	(998,780)	(652,102)
Net (Loss) per Share (Basic)	(0.01)	(0.02)	(0.02)	(0.01)
Cash Flow (Used in) Operations	(446,036)	(835,870)	(61,901)	(597,300)
Cash and Cash Equivalents (End of Period)	520,312	383,298	656,478	1,549,157
Assets	11,382,523	10,808,096	11,067,970	12,974,608
Dividends	Nil	Nil	Nil	Nil

<b>March 31, 2017 Fiscal Year</b>				
	Fourth Quarter March 31, 2017	Third Quarter December 31, 2016	Second Quarter September 30, 2016	First Quarter June 30, 2016
Gross Revenue	\$ 386,629	\$ 1,601,983	\$ 1,543,063	\$ 2,396,750
Total Expenses	844,658	2,702,660	2,454,988	2,365,805
Net (Loss) for Period	(816,456)	(1,088,392)	(899,924)	38,700
Net (Loss) per Share (Basic)	(0.01)	(0.01)	(0.01)	(0.00)
Cash Flow (Used in) Operations	70,508	678,270	(284,942)	(378,570)
Cash and Cash Equivalents (End of Period)	264,937	1,365,770	5,420,236	782,592
Assets	11,882,433	8,621,635	12,992,032	8,769,832
Dividends	Nil	Nil	Nil	Nil

During the year ended March 31, 2019, the Group (as defined below) continued to advance the Krone-Endora at Venetia project to aid the Company in arriving at initial production decisions.

## **ANNUAL RESULTS ANALYSIS**

As of March 31, 2019, the Company held assets of \$8,702,487 which included cash and cash equivalents of \$139,080, accounts receivable of \$200,617 from the sale of rough diamonds, value added tax, and other receivables. diamond inventory of \$615,929, and prepaid expenses of \$31,592. The Company held restricted cash of \$723,708 associated with a guarantee for certain rehabilitation obligations and electrical guarantees. The net book value of property, plant and equipment assets was \$6,991,561.

As of March 31, 2019, the Company's total liabilities were \$7,778,058. Accounts payable related to facility expansion and upgrades underway at Krone-Endora, trade, tax, accrued salaries and benefits payable were \$1,127,382. The current portion of debt from the Tiffany & Co. convertible debenture and payments due in the next 12 months is \$4,058,456. The Company had an estimated deferred tax liability of \$458,419. The decommissioning liability associated with the Krone-Endora at Venetia project is \$479,560, and \$1,654,241 was recorded as due to the Company's BEE 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, restricted cash, receivables and accounts payables and accrued liabilities. Unless otherwise noted, management believes 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 situated in South Africa and the Company follows standard South African policy with respect to both the investment and removal of funds into projects and operations within South Africa.

## **Revenue**

The Company reports revenue of \$4,113,516 (US \$3,032,187), a decrease when compared to revenues of \$5,948,828 (US \$4,600,918) realized during the prior fiscal year. The decrease in sales during the current fiscal year, when compared to the previous, was the result of reduced processing volumes associated with contract equipment reliability and additional work which was completed to refine the project's processing facilities during the current fiscal year. The Company believes these items have now been addressed to allow for planned increases in processing volumes to be achieved moving forward. The Company realized a price per carat of (US) \$225, an increase as compared to an average price per carat of (US) \$194 in the same period in 2018. The average dollar per carat during the current period was in line with Company targets, with the increase in average dollar per carat somewhat attributable to an increase in the number of larger gem quality rough diamonds recovered in the period, which continues to demonstrate the potential of the deposit with regard to the quality, overall size frequency distribution, and the recoveries of larger diamonds in the 10.8 carat plus "special" category. The recovery of all rough diamonds to date, were incidental to the ongoing commissioning and testing and trial mining exercises being performed by the Company.

The Company realized \$66,044 from interest and other income and a loss of \$4,200 for foreign exchange, as compared to realizing \$54,254 from interest and other income, and a loss of \$6,765 for foreign exchange for the same period during the prior fiscal year. The Company anticipates it will realize additional revenues from the incidental recoveries and the sale of rough diamonds after March 31, 2019.

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

Operating expenses are comprised primarily of labor, management, contracted labor and equipment, utilities, fuel, and other expenses incurred at the project. The most significant of these operating expenses remains heavy equipment and diesel fuel costs associated with the trial mining operations, followed by plant maintenance and consumables, wages and expenses related to mine management and employees, and consulting fees for the ongoing advancement, compliance, and reporting requirements at the project. The Company realized operating expenses of \$4,501,907 in fiscal 2019, a decrease when compared to \$6,748,857 for the same period in the prior fiscal year, which was somewhat attributable to the reduced processing volumes associated with contractor equipment reliability, and the accounting treatment of various items as outlined in the consolidated financials.

## **General and Administrative Expenses**

Total general and administrative expenses were \$3,564,127, a slight decrease when compared to \$3,614,646 incurred during the same period in fiscal 2018. Accretion and depreciation expenses decreased to \$1,148,982 from \$1,372,233. Consulting fees were relatively unchanged at \$198,500 from \$197,875, as were insurance costs of \$78,987 from \$77,057. Interest and bank charges decreased to \$563,242 from \$573,838, which are mainly attributable to the remaining portion of the Tiffany & Co. debt. Office expenses increased to \$166,839 from \$135,784 due to the addition of facilities in South Africa to support expanding operations, while professional fees were increased to \$248,297 as compared to \$216,322. Investor relations expenses increased to \$348,545 when compared to \$135,512 realized during the prior fiscal year, however a significant portion of these costs were associated with marketing programs which the Company elected to delay proceeding with until the fall of 2019. Salaries and wages decreased to \$556,807 from \$610,203. Expenses for transfer agent and regulatory fees decreased to \$59,356 from \$62,098. Travel expenses decreased to \$194,572 as compared to \$233,724 in the prior fiscal year.

General and administrative expenses were primarily incurred by the Company in support of the further advancement of the Krone-Endora at Venetia project's recommended work programs, the Company's continued advancement of the plant commissioning and testing exercises, updates, 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 and Mining Right by the South African Department of Mineral Resources. The Company remains committed to managing its resources carefully and conserving cash.

## Net Earnings

The Company generated income of \$4,113,516 net of commissions and fees from the recovery and sale of rough diamonds incidental to the ongoing commissioning and testing of facilities during the year ending March 31, 2019. The Company incurred \$4,501,907 in operating expenses and realized a net loss from operating activities of \$388,391. The Company incurred \$3,564,127 in general and administrative expenses, earned \$66,044 in interest and other income, realized a loss of \$4,200 for foreign exchange, which resulted in a net loss before tax of \$3,890,674 for the year ended March 31, 2019, as compared to a net loss of \$4,367,607 for the same period in the prior fiscal year. The Company recorded a foreign currency translation exchange loss of \$1,074,518 compared to a gain of \$572,057 for the same period in the prior fiscal year.

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

	For the year ended March 31,		
	2019	2018	2017
Total Revenue	\$ 4,113,516	\$ 5,948,828	\$ 5,928,425
Net Income (Loss) Before Tax	\$ (3,890,674)	\$ (4,367,607)	\$ (2,458,112)
Basic and Diluted Earnings (Loss) Per Common Share	\$ (0.04)	\$ (0.06)	\$ (0.02)
Total Assets	\$ 8,702,487	\$ 11,382,523	\$ 11,882,433
Total Long-Term Liabilities	\$ 2,592,220	\$ 3,099,289	\$ 4,447,582
Cash Dividend	\$ Nil	\$ Nil	\$ Nil

## LIQUIDITY AND CAPITAL RESOURCES

The Company recorded a net loss of \$3,853,280 in the year ended March 31, 2019 as compared to a net loss of \$4,571,597 for the year ended March 31, 2018. The Company recorded negative cash flow from operating activities of \$3,010,659 compared to negative cash flow from operating activities of \$1,741,221 for the same period last year. As of March 31, 2019, the Company had an accumulated deficit of \$35,225,722.

**Cash Position.** As at March 31, 2019, the Company had cash and cash equivalents of \$139,080 (\$520,312 March 31, 2018), rough diamond inventory of \$615,929 (\$196,096 March 31, 2018), accounts receivable of \$200,617 (\$604,419 March 31, 2018), and prepaid expenses of \$31,592 (\$31,685 March 31, 2018). The Company believes it has adequate cash, or the potential to access additional capital if required, for the continued development, commissioning, bulk sampling, and advancement of the recommended work programs, and the potential to generate future revenues from the incidental recovery and sale of rough diamonds from the combined efforts underway at the project.

A portion of the cash on hand and available for use by the Company at March 31, 2019 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 had a 5-year term and a fixed rate of interest of 7% per annum. The loan was non-amortizing for a 24-month period and no

interest or principal was due until after this 24-month period, at which time interest and principal would be payable monthly in accordance with a 36-month amortization schedule. The Company retained the right to repay the Term Loan and any accrued and unpaid interest due at any time without notice or penalty. The Convertible Debenture had a term of 5 years and a fixed rate of interest of 7% per annum. Like the Term Loan, interest accrued but was not payable for the 24-month period from the date of issuance, after which time interest would become due and payable monthly. 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 & Co. In April 2013, the Company commenced with repayments as per the original terms of the agreement. In December of 2014, the Company and Tiffany & Co. agreed to defer any further payments to January of 2016. At that time, a change to the interest rate associated with the facility to 9% was also agreed to by the parties. In January of 2016, the Company and Tiffany & Co. agreed to defer any further payments to July of 2016. In February 2017, the Company and Tiffany agreed to defer payments until June 2017 at which time the remaining balances associated with this loan were paid in full.

On November 16, 2012, the Company announced that it had secured an additional \$4.0M in financing from 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 secured by a promissory note which was non-amortizing until January 2015, after which time principal and interest would become payable monthly in accordance with a 36-month amortization schedule. The Company retained 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 had a fixed rate of interest of 9% per annum, and was non-amortizing until January 2015, following which time principal and interest would be payable monthly in accordance with a 36-month amortization schedule. The Company retained 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. Early in 2014, the Company and Tiffany & Co. agreed to initially defer any payments on the \$2,400,000 term loan and the \$1,600,000 convertible debenture to January 2015. In December of 2014, the Company and Tiffany & Co. agreed to further defer any payments to January of 2016, with that date subsequently revised to defer any further payments to July of 2016. In February 2017, the Company and Tiffany agreed to defer payments until June 2017 at which time the outstanding payments were paid and scheduled payments recommenced. In September 2017, the Company and Tiffany & Co. verbally agreed to a temporary deferral of payments. The Company plans to resume payments once it is able to resume testing and commissioning exercises at increased volumes.

On December 13, 2017, the Company announced its intention, subject to TSX Venture Exchange approval, to extend the expiry date of 1,566,800 share purchase warrants ("Warrants"), which were exercisable to purchase up to 1,566,800 common shares in the authorized share capital of the Company at an exercise price of \$1.25 per share, from December 30, 2017 to December 30, 2018. All other terms of the Warrants remained unchanged. The extension of the expiry date of the warrants was subject to TSX Venture Exchange approval, and the Company received the required approval on December 21, 2017. Subsequently, on December 30, 2018, the amount of 1,566,800 share purchase warrants expired unexercised and were cancelled.

The Company completed a brokered private placement financing of 5,291,545 units at a price of \$1.10 per unit on August 31, 2016 resulting in gross proceeds of \$5,820,700, with over 90% of the units being acquired by institutional investors. Each unit consisted of one common share and one-half of one common share purchase warrant with an exercise price of \$1.60 expiring August 31, 2019. In conjunction with the closing of the financing, the Company paid aggregate cash commissions and legal fees of \$327,000 to agents, which included 6% of the gross proceeds received from subscriptions introduced to the Company by the agents. In addition, the Company issued an aggregate of 297,273 non-transferable warrants to agents, representing 6% of the number of units sold to subscribers introduced to the Company by agents. In addition, as part of a non-brokered portion of the offering, the Company paid to certain finders an aggregate cash commission of \$10,230, representing 6% of the gross proceeds received from subscribers introduced to the Company by such finders, and issued an aggregate of 9,300 non-transferable warrants to such finders, representing 6% of the number of units sold to subscribers

introduced to the Company by such finders. All warrants issued to the agents and finders entitled the holder to purchase one share of the Company at an exercise price of \$1.60 until August 31, 2019. All shares and warrants issued were subject to a hold period ending on January 1, 2017.

The Company completed a non-brokered private placement financing of 4,956,909 units at a price of \$0.85 per unit on June 9, 2017, resulting in gross proceeds of \$4,213,373. Each unit consisted of one common share and one-half of one common share purchase warrant with each whole warrant being exercisable to purchase an additional common share at an exercise price of \$1.20, expiring June 9, 2020. In conjunction with the closing of the financing the Company paid aggregate cash commissions and legal fees of \$90,885 to agents, which represented 6% of the gross proceeds received from subscriptions introduced to the Company by the agents. In addition, the Company issued an aggregate of 106,923 non-transferable share purchase 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 \$1.20 until June 9, 2020. The shares and warrants issued were subject to a hold period ending on October 10, 2017.

The Company completed the first tranche of a non-brokered private placement financing of 5,715,950 units at a price of \$0.35 per unit on June 20, 2018, resulting in gross proceeds of \$2,000,583. Each unit consisted of one common share and one-half of one common share purchase warrant with each whole warrant being exercisable to purchase an additional common share at an exercise price of \$0.60, expiring June 20, 2021. In conjunction with the closing of the financing the Company paid aggregate cash commissions and finder's fees of \$1,814 to agents, which represented 6% of the gross proceeds received from subscriptions introduced to the Company by the agents. In addition, the Company issued an aggregate of 5,194 non-transferable share purchase 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 \$0.60 until June 20, 2021. The shares and warrants issued were subject to a hold period ending on October 21, 2018.

The Company completed the second tranche of a non-brokered private placement financing of 3,510,315 units at a price of \$0.35 per unit on August 29, 2018, resulting in gross proceeds of \$1,228,610. Each unit consisted of one common share and one-half of one common share purchase warrant with each whole warrant being exercisable to purchase an additional common share at an exercise price of \$0.60, expiring August 29, 2021. In conjunction with the closing of the financing the Company paid aggregate cash commissions and finder's fees of \$6,510 to agents, which represented 6% of the gross proceeds received from subscriptions introduced to the Company by the agents. In addition, the Company issued an aggregate of 18,600 non-transferable share purchase 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 \$0.60 until August 29, 2021. The shares and warrants issued were subject to a hold period ending on December 30, 2018.

As of March 31, 2019, the Company had 63,885,888 common shares issued and outstanding and has authorized capital of an unlimited number of shares.

**Working Capital.** As of March 31, 2019, the Company had negative working capital of \$4,198,620 as compared to negative working capital of \$4,299,360 at March 31, 2018. Working capital is calculated based on current assets less current liabilities.

**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 continued work on the upgrades, expansion, and commissioning of the modular plants at the project, the initial sales of rough diamonds incidentally recovered from the ongoing commissioning and testing exercises, the successful granting of the required Mining Right by the South African Department of Mineral Resources, and the successful granting of a Water Use License by the South African Department of Water Affairs, the Company anticipates it has the potential ability to finance the recommended bulk sampling and large-scale trial mining operations underway which are designed to aid the Company in arriving at an initial production decision for the Krone-Endora at Venetia project. 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 \$3,469 per month (\$3,609 commencing June 2019). The lease expires in May 2022. The minimum lease payments under this lease are \$41,628 per year (\$43,308 per year commencing June 2019).

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

The preparation of the consolidated financial statements in conformity with IFRS for the Company and its subsidiaries, namely DMI Minerals South Africa (Pty) Ltd., and DMI Diamonds South Africa (Pty) Ltd. (collectively the "Group") requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Information about significant areas of estimation uncertainty considered by Management in preparing the consolidated financial statements are described below

### ***Production start date***

The Group assesses the stage of its mine under development to determine when the mine moves into the production phase, this being when the mine is substantially complete and ready for its intended use. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. At that point, all related amounts are reclassified from 'Mines under construction' to 'Producing mines' under 'Property, plant and equipment'. Some of the criteria used to identify the production start date include, but are not limited to:

- Level of capital expenditure incurred compared with the original construction cost estimate
- Ability to produce diamonds in saleable form
- Ability to sustain ongoing production of diamonds.

When a mine development project moves into the production phase, the capitalisation of certain mine development costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, or mineable reserve development. It is also at this point that depreciation/amortization commences.

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

Judgment is required in determining whether deferred tax assets are recognized on the consolidated statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income

differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

### ***Mining property***

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mining properties. The Group has diligently investigated rights of ownership of all 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 of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

### ***Determination of cash generating units (“CGU”)***

The Group’s assets are aggregated into CGUs for the purposes of calculating impairment. CGUs are based on an assessment of the unit’s ability to generate independent cash inflows. The determination of the Group’s CGUs was based on management’s judgement regarding shared infrastructure, geographical proximity and similar exposure to market risk and materiality. The Group has 1 CGU at March 31, 2019 (March 31, 2018 – 1 CGU).

### ***Reserve and resource estimates***

Diamond reserves are estimates of the amount of diamonds that can be economically extracted from the Group’s mining properties. The Group does not currently have any diamond reserves due to the nature and type of the resource. The Group has assigned inferred resources to the project based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of resources is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the resource estimates may impact upon the carrying value of mine development cost, mine properties, property, plant and equipment, decommissioning liability, recognition of deferred tax assets, and depreciation charges.

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

When an impairment test is performed on an asset or a CGU, management estimates the recoverable amount of the asset or CGU based on its fair value less costs of disposal (“FVLCD”) or its value in use (“VIU”). Impairment assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves and operating performance. These assumptions have a significant impact on the results of impairment tests and on the impairment charge (if required) recorded in the consolidated statement of loss and comprehensive loss.

### ***Decommissioning liability***

In the determination of provisions, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, risk-free discount rates, and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact estimated future obligations and in return, profit or loss, and in the case of the decommissioning liability, property, plant and equipment balances.

### ***Useful life of property and equipment and intangible assets***

Depreciation and amortization are calculated using a systematic and rational basis, which is based upon an estimate of each asset’s useful life and residual value. The estimated useful life and residual value chosen are the Group’s best estimate of such and are based on industry norms, historical experience, market conditions and other estimates that consider the period and distribution of future cash inflows.

### ***Non-cash stock-based compensation***

The Group measures the cost of non-cash stock-based compensation transactions with employees and warrants issued as part of an equity placement by reference to the fair value of the equity instruments. Estimating fair value for non-cash stock-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, forfeiture rate, volatility and dividend yield of the share option. The Group measures the cost of non-cash stock-based compensation transactions with consultants by reference to the fair value of the services to be performed.

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

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

- In January 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), which replaces IAS 17, Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a services contract on the basis of whether the customer controls the assets being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that have also adopted IFRS 15. The Group has not yet assessed the impact of the final standard.

## ***FINANCIAL INSTRUMENTS***

### ***Fair values***

IFRS defines fair value as the price that would be received to dispose of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument

- Level 1 – Inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2 – Fair values of financial assets and liabilities in level 2 are based on inputs other than level 1. Inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Inputs to the valuation methodology are not based on observable market data.

The Group’s financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, amounts due to Nozala Investments and long-term debt. The fair value of cash and cash equivalents and restricted cash, accounts receivable and accounts payable approximate their carrying values due to the short-term maturities of these items. The fair value of the Nozala Investments loan approximates the

carrying value as the interest rate floats with prime. The fair value of the long-term debt approximates the carrying value as the interest rate is a market rate for similar instruments.

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

### **Financial risks**

The Group's activities result in exposure to a variety of financial risks, including risks related to credit, market risk (currency fluctuation and interest rates) and liquidity risk.

#### a) Credit risk

The Group is exposed to credit risk only with respect to uncertainties as to timing and collectability of accounts receivable, cash and cash equivalents and restricted cash. The Group mitigates credit risk through standard credit and reference checks. There are no material financial assets that the Group considers past due. The Group currently holds the majority of its cash and cash equivalents and restricted cash in large financial institutions in Canada and South Africa and does not expect any significant risk associated with those deposits. The accounts receivable are sales taxes refundable due from the Government of South Africa and Canada \$184,861 (\$145,626 - 2018) as well as trade receivables from diamond tenders of \$15,757 (\$458,794 - 2018). The Group does not foresee any significant risk in the collection of these accounts receivable.

The trade accounts receivable aging amounts are as follows:

<b>March 31, 2019</b>		<b>March 31, 2018</b>	
0-30 days	\$ 15,757	0-30 days	\$ 405,059
31-90 days	-	31-90 days	53,735
120+ days	-	120+ days	-
<b>Total</b>	<b>\$ 15,757</b>	<b>Total</b>	<b>\$ 458,794</b>

The maximum exposure to credit risk for the Group as the reporting date is the carrying value of cash and cash equivalents, restricted cash and trade receivables disclosed above.

#### b) Interest rate

The Group is not exposed to any material interest rate risk as the Group's long-term debt has a fixed rate of interest, except for the Nozala Investments loan which has a variable rate of interest of South African prime rate plus 3%. A 1% change in the South African prime rate would result in net loss expense changing by approximately \$17,000.

#### c) Foreign currency risk

The Group is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Group does not use derivative instruments to reduce its exposure to foreign currency risk.

The Group's subsidiaries in South Africa operate using principally the United States Dollar and the South African Rand and as such may be negatively affected by fluctuations in foreign exchange rates when translating from the currency of measurement of the Group's subsidiaries to the Group's reporting currency. The Group's monetary assets and liabilities denominated in South African Rand include:

	March 31, 2019	March 31, 2018
Cash and cash equivalents and restricted cash	\$843,056	\$1,239,050
Accounts receivable	193,220	594,945
Prepays	-	782
Accounts payable	940,047	1,716,794
Long-term debt	1,654,241	1,708,779

A 5% change in the South African Rand would result in total comprehensive loss increasing or decreasing by approximately \$214,000.

d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations when they fall due. The Group manages this risk through management of its cash flow from operations and its capital structure. Based on senior Management's and the Board of Directors' review of ongoing operations, the Group may revise timing of capital expenditures, bank loans, including project specific loans, or issue equity or a combination thereof.

The Group's current financial liabilities of \$5,185,838 are payable within one year. The Group enters contractual obligations in the normal course of business operations. Management believes the Group's requirements for capital expenditures, working capital and ongoing commitments (including long-term debt) can be financed from existing cash, issuing equity, cash flow provided by operating activities, existing bank loans and by acquiring new project loans.

The table below summarizes the maturity profile of the Group's financial liabilities as at March 31, 2019 based on contractual undiscounted payments:

	<i>Current</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>Thereafter</i>
Accounts payable	\$1,127,382	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt	4,058,456	-	-	-	-	-
Operating lease commitment	43,308	43,308	43,308	43,308	-	-
Due to Nozala Investments	-					1,654,241
	\$5,229,146	\$43,308	\$43,308	\$43,308	\$ -	\$1,654,241

e) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate because of changes in commodity prices. Commodity prices for diamonds are impacted by not only the relationship between the Canadian, United States Dollar and South African Rand, but also world economic events that dictate the levels of supply and demand. The Group is exposed to the risk of declining prices for diamonds resulting in a corresponding reduction in projected cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Groups' capacity to grow production. The Group did not have any fixed price commodity price contracts in place as at or during the year ended March 31, 2019 and the year ended March 31, 2018. The Groups' operational results and financial condition are largely dependent on the commodity price received for its diamond production. Diamond prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, economic and geopolitical factors. A 5% change in the price of diamonds would result in total comprehensive loss changing by approximately \$214,000.

## **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 year ended March 31, 2019, the Company paid or accrued to key management personnel and consultant's compensation totaling \$429,600, Directors fees of \$84,500 and performance bonuses of \$nil. As at March 31, 2019, the Company owed a total of \$55,774 (March 31, 2018 - \$55,125) to Directors of the Company and its subsidiaries, including a company controlled by a Director.

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

## **OUTSTANDING SHARE INFORMATION**

As at March 31, 2019

### **Authorized**

Issued and outstanding shares	63,885,888
Weighted average outstanding shares	61,165,204

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

The Company files a 52-109FV1 certification of annual filing 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 Financial Officer evaluated the Company's disclosure controls and procedures for the year ended March 31, 2019 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.

## **SUBSEQUENT EVENTS**

On July 4, 2019 the Company announced its intention to complete a term loan financing of up to CDN\$1,000,000. Term loans under the Financing, including the Initial Term Loan, will be unsecured, carry an annual interest rate of 7% payable at maturity and the Company will issue a total of 120,000 common shares in its authorized share capital, along with 60,000 share purchase warrants, for every CDN\$100,000 of principal advanced under the Financing by participants/lenders pursuant to Policy 5.1 of the TSX Venture Exchange Corporate Finance Manual. The principal and interest of the Initial Term Loan is due and payable on the 12 month anniversary of the closing date. The Term Loan transaction is subject to regulatory approval of the TSX Venture Exchange along with completion of all definitive documentation and filings as required. All securities issued pursuant to the above will be subject to a hold period of four months plus one day following the closing.

## **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 OTCQB 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 22 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.