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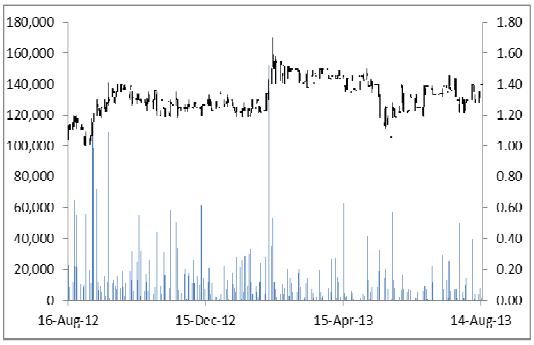
Diamcor Mining Inc. (TSXV: DMI, OTCQX: DMIFF) – Full Scale Production Expected Shortly

Sector/Industry: Junior Mining **www.diamcormining.com**

Market Data (as of August 16, 2013)

Current Price	**C$1.45**
Fair Value	**C$2.14**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	C$1.00 – C$1.70
Shares O/S	35.14 mm
Market Cap	C$50.96 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	28.3%
YoY TSXV	-22.8%

**see back of report for rating and risk definitions*



Investment Highlights

- Diamcor Mining Inc. is focused on commencing near-term commercial production at the Krone-Endora diamond project in northern South Africa.
- The Krone-Endora project sits immediately adjacent to De Beers' Venetia Diamond Mine.
- Strategic partnership with Tiffany & Co. Tiffany owns 9% of DMI's outstanding shares. DMI also has $7.5 million in term loans and convertible debentures due to Tiffany.
- As of our previous report in January 2013, the company was planning to commence trial mining operations within weeks. This was pushed back due to unseasonably heavy rainfall in Q1 2013. Commercial production is expected to commence later this year.
- The company has so far sold 6,703 carats for gross proceeds of US$926k. The company is currently working on the sale of an additional 3,500 – 4,500 carats. Moving forwards, the company expects sales to occur every 6-8 weeks.
- Recently announced the completion of an 8.4km power line to the project. This completes the infrastructure requirements and the project is now ready to move into 24/7 production.
- DMI expects to ramp production up to 10,000 carats per month within 12 months, and 20,000 carats per month within 24 months.
- The first "special" diamond was recovered from Krone-Endora this spring, weighing in at 11.23 carats. Since then, six other "special" diamonds have been recovered.
- We maintain our fair value estimate at $2.14 per share.

Key Financial Data (YE - March 31) (C$)	2012	2013
Cash	1,747,313	793,622
Working Capital	1,285,054	(2,837,520)
Property, Plant and Equipment	1,417,647	3,650,094
Total Assets	6,312,358	7,258,428
Revenues	-	539,979
Net Income	(3,850,638)	(4,305,834)
EPS	(0.11)	(0.10)

Diamcor Mining Inc. holds a 70% interest in the Krone-Endora diamond project and has a strategic alliance with Tiffany & Co. Trial mining is underway, ramping up to a production rate of 10,000 carats per month within the next 12 months.

Company Overview

Diamcor Mining Inc. ("DMI" or "the company") is focused on bringing the Krone-Endora at Venetia diamond project in South Africa to commercial production. In February 2011, DMI closed the acquisition of the Krone-Endora project through its 70% owned subsidiary DMI Minerals South Africa (Pty) Limited. The remaining 30% interest in DMI Minerals South Africa is held by Nozala Investments (Pty) Ltd., a South African Black Economic Empowerment company.

Shortly after the acquisition of the Krone-Endora diamond project, DMI finalized a financing agreement with the diamond retailer Tiffany & Co (NYSE: TIF). Under the agreement, Tiffany & Co holds the first right of refusal to purchase rough diamonds recovered from the property.

DMI management has past operational experience in the diamond industry through operation of the So Ver diamond tailings reprocessing project. The So Ver project operated for seven years until the end of 2006. The company's past operations have allowed them to form relationships with various industry suppliers, technical groups and major diamond miners (such as De Beers), as well as to gain an intimate knowledge of the government policies and permitting procedures.

The chart below shows the corporate structure of DMI;

Source: Company Website

A brief description of the subsidiaries, as provided by the company, are listed below;

- ***DMI Diamonds South Africa (Pty) Ltd*** *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.*

- ***DMI Minerals South Africa (Pty) Ltd*** *is the company's 70% owned subsidiary, which was used to acquire the Krone-Endora from De Beers.*

- ***So Ver Mine (Pty) Ltd*** *is the company's previous project as noted, and the project has now been completed. Diamcor is in the process of selling its interest in So Ver and the remaining land assets for $172k.*

- ***Jagersfontein Diamond Mining Company (Pty) Ltd*** *is a 100% DMI owned subsidiary which was formed for use in future acquisitions. As of this date, the subsidiary remains inactive.*

Krone-Endora at Venetia Diamond Property

Ownership

The Krone-Endora project is held by the company's 70% owned subsidiary DMI Minerals. The remaining 30% is owned by Nozala Investments (Pty) Ltd. ("Nozala").

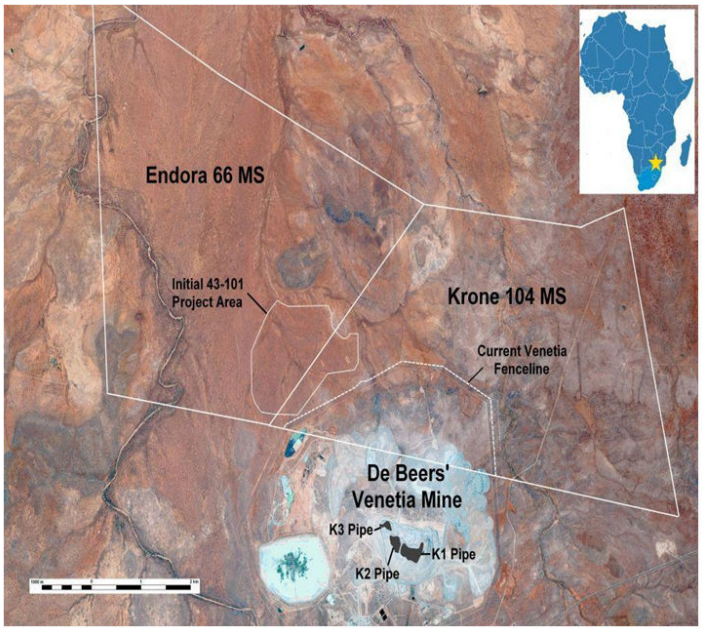
DMI Minerals paid De Beers R14 million (approximately US$2 million) to acquire the project. **The purchase was agreed upon during the financial crisis in 2008, and we believe the company was able to acquire the project at a significant discount based on our valuation and cash flow projections on the project**, presented later in this report. The acquisition of the Krone-Endora project from De Beers was completed on February 28, 2011.

Location, Climate and Infrastructure

The Krone-Endora property is located approximately 500km north-northeast of Johannesburg, South Africa. The closest towns are Alldays (approximately 33km south of the project) and Musina (a modern town with mining support services and a regional airport located approximately 107km to the east).

The property is directly adjacent to the De Beers Consolidated Mines Limited ("De Beers") Venetia diamond mine, which is the third largest diamond mine in the world, and South Africa's largest diamond producer.

The map below shows the location of the Krone-Endora at Venetia diamond project:



Source: DMI December 2012 Corporation Presentation

Access to the property is by 9km of well-maintained roads from the Venetia outer security fence. **We believe that the proximity of the project location, and access road to the Venetia Mine, provides an enhanced level of security.**

The lack of settlements close to the project, combined with the proximity to an operating mine, we believe, will bode well for the permitting process *(DMI expects to receive the mine permit within the next 60-90 days)*, and operation of a surface mining project at Krone-Endora.

The climate in the area is arid and there is typically year-round sunshine, allowing for operations to continue through all seasons. **However, unseasonably heavy rains during Q1 2013 had a negative effect on the mining operations, causing delays in the processing of material.** The company was unable to conduct dry screening to sort the material at the quarry site so there was a lack of material available for treatment at the main processing plant. This resulted in delays to the start of trial mining. **DMI has stated that operations are now underway, and the company is working towards ramping up production.** Note that the recently added sorting equipment at the quarry site will allow for stockpiling of sorted material, reducing the impact of heavy rain on the processing operations in the future.

From 2011 to 2013, DMI has improved access roads and installed security fencing, water pipelines, and a main power line to feed the project.

Geology and Mineralization

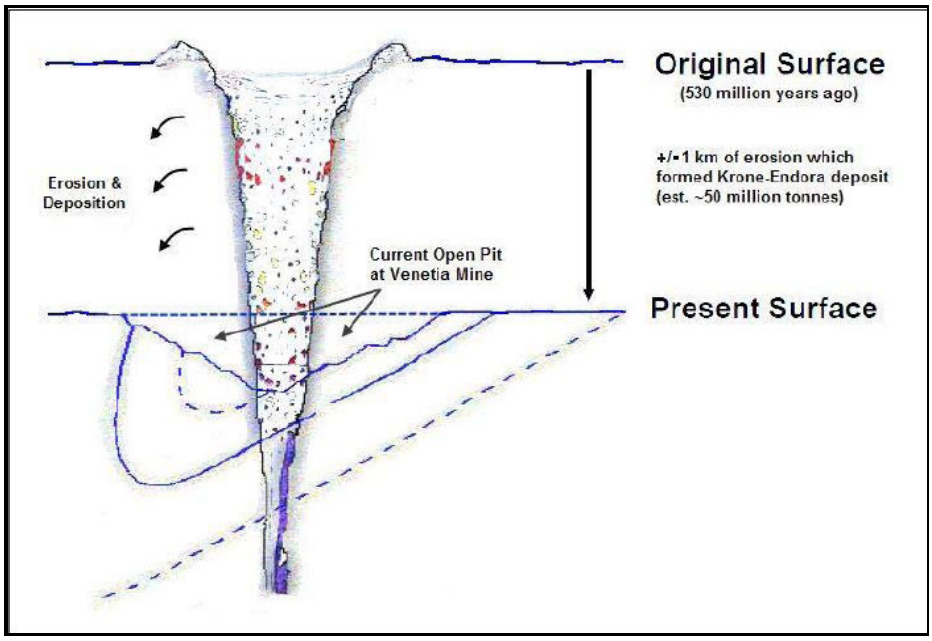
The Venetia mine, which produces diamonds from the Venetia kimberlite pipe cluster (12 pipes in total), is considered the largest producer of diamonds in South Africa. In 2012, the

Venetia mine processed 5,618,000 tonnes of material, recovering a total of 3,066,000 carats.

Diamond Formation
Diamonds are formed at great depths in the earth's mantle, most often below continental cratons, where the appropriate high temperature and high pressure conditions are met. The association between kimberlite pipes and diamonds results from the kimberlite pipes acting as conduits by which diamonds travel from depth to or near the surface of the Earth's crust.

Kimberlites and Diamonds
Kimberlite deposits form through the rapid eruption of highly volatile magma with a primarily mantle composition. The violent eruption tends to result in a roughly carrot-shaped "pipe" which has brought with it xenoliths from depth. Occasionally these xenoliths are diamondiferous. Note: xenoliths are rock fragments torn off of the surrounding rock as the magma travels upward. They become trapped in the kimberlite magma, and thus, diamond bearing xenoliths are moved closer to Earth's surface.

The diagram below shows the interpreted cross section of the K1 kimberlite pipe at the Venetia mine.

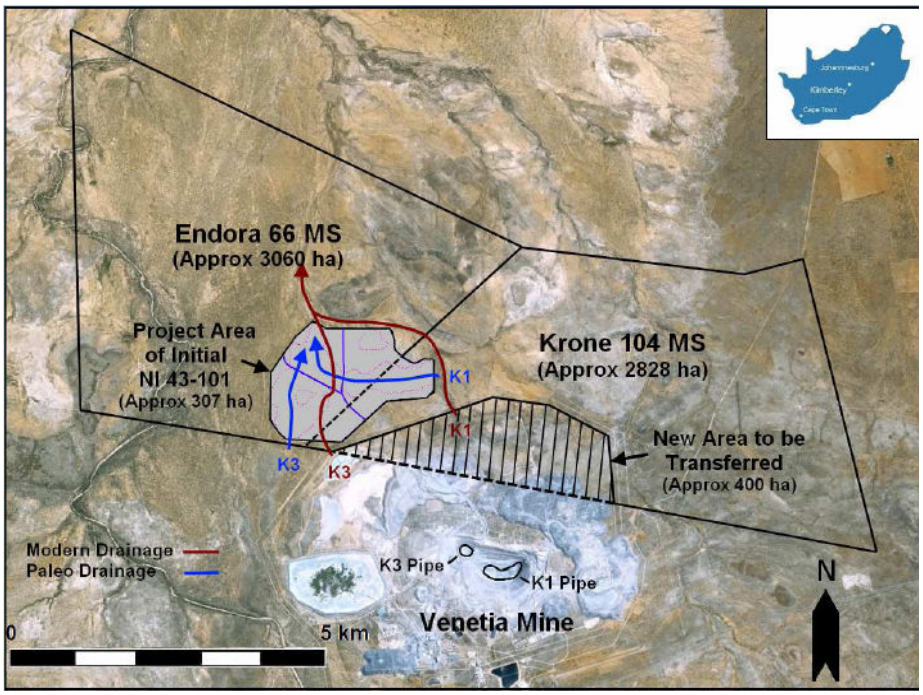


Source: 2009 NI 43-101 Technical Report

The approximately 1,000 vertical meters of material believed to have been eroded from the Venetia kimberlites is critical to the DMI deposit as it is the interpreted source of diamonds on the property. The deposit is interpreted to have been transported to its current location by both alluvial and eluvial forces. Alluvial erosion refers to the transport of material by water in rivers. In this case, eluvial erosion refers to the transport of materials influenced primarily by weathering plus gravitational movement or accumulation. **The down slope slumping of material (possibly with the help of precipitation) is believed to have resulted in a short-term, direct shift of source material from the Venetia**

kimberlites to the current location on the company's project.

The map below shows the drainage systems that moved material onto the Endora and Krone property from the adjacent Venetia Mine kimberlites;



Source: Company

Whether transported by alluvial or eluvial forces, the source material has only traveled a short distance and as a result, large diamonds would be expected to appear in relatively pristine condition. Smaller grains that would normally be destroyed during long distance transport may also be more prevalent. Independent reports quote that 85% of diamonds recovered from the Venetia mine are of gem quality. **According to management, the diamonds recovered at Krone-Endora to date have been in a similar range of gem quality as those from the Venetia mine.**

Note that there is potential for lower concentration of gem quality diamonds at Krone-Endora due to transport of material. During transport, the diamond bearing material is broken apart and spread out over a greater area, reducing the concentration of gem quality diamonds. The process may also damage some diamonds even though, in this case, the distance transported is relatively short. **DMI's management has stated that the Krone-Endora diamonds appear to be undamaged and are of comparable quality to those produced from the Venetia mine.**

Mineralization at Krone-Endora is divided into two litho-stratigraphic units, the coarser basal gravel unit and upper gravel unit. The basal unit has a maximum thickness of approximately 4 meters, while the upper unit has a maximum thickness of 12 meters. **The company has stated that the basal gravels contain higher grades with respect to the size**

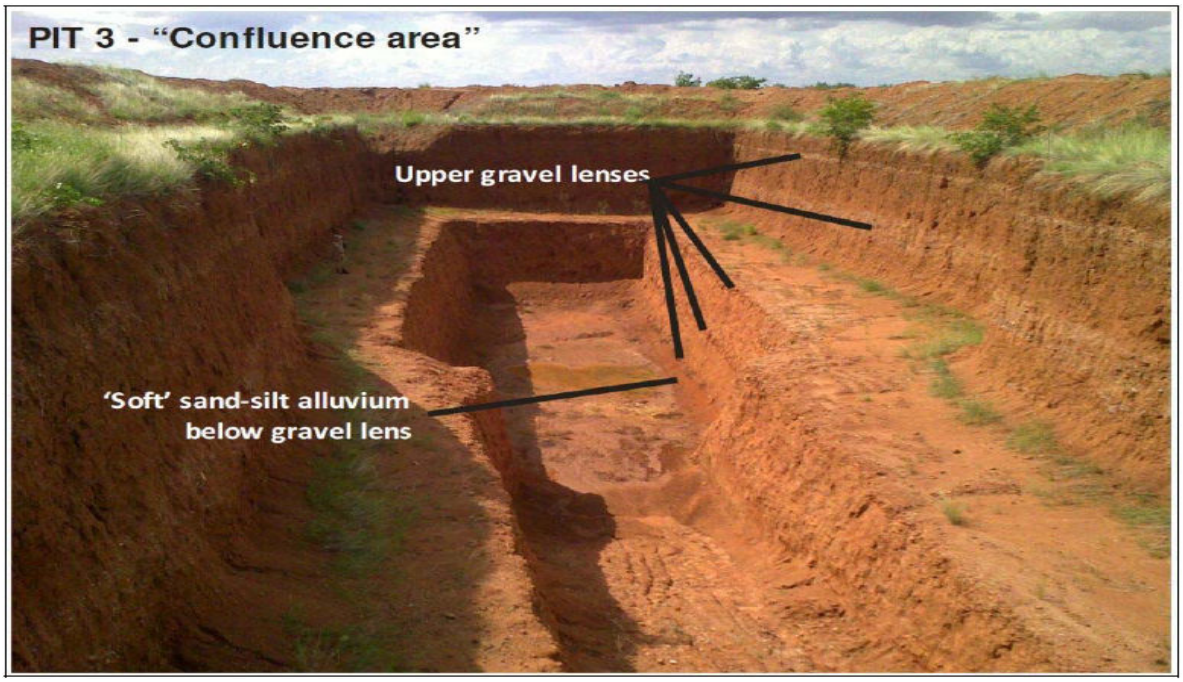
and quality of the diamonds.

There are three main diamond bearing areas at Krone-Endora, K1, K3 and Confluence. These are named based on the suspected source kimberlite pipes at the Venetia Mine. The K1 and K3 areas are situated where the paleo drainage would have flowed (blue lines on the map above). The Confluence area is where these two drainage paths merged together.

History

Initial exploration on the Krone-Endora property was performed by De Beers in the 1980's. This included a large diameter drilling program in 1986, which was followed by a comprehensive large diameter auger program in 1995. A bulk sampling program was undertaken in 2004, in which three sample pits were extracted, leading to De Beer's completing an internal Mineral Deposit Estimate Report.

The picture below shows the sample pit #3 from the De Beers 2004 exploration program;



Source: 2009 NI 43-101 Technical Report

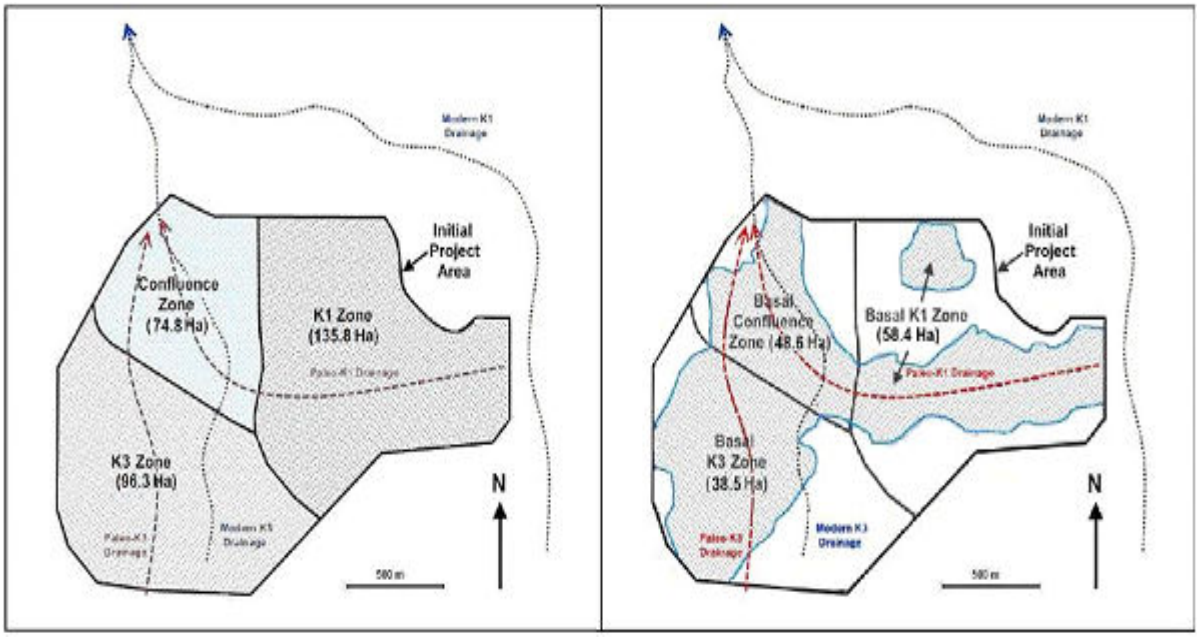
Resource Estimate

In 2009, DMI released a NI 43-101 compliant inferred resource of 54.26 million tonnes of diamond bearing gravel containing an estimated 1.31 million carats of diamonds.

The 43-101 resource estimate combines the K1, K3, and Confluence areas, and covers a total of approximately 307 hectares. **The resource includes material from surface to a depth of approximately 15 meters**, encompassing the basal and upper gravel units within

each zone. Operations completed so far have indicated that it is exploitable by simple quarrying methods.

The figures below show the paleo-drainage patterns as represented by dashed arrows and modern drainage by dotted arrows. The map on the left shows the upper gravel and the map on the right shows the basal gravel;



Source: 2009 NI 43-101 Technical Report

Exploration by DMI

During 2011, DMI completed a two phase drill program at Krone-Endora that was designed to better define the lower grade upper gravels, better define the higher grade basal unit, improve resolution of previous drilling, and expand the area of the deposit. **Since the basal unit has been shown to be a higher grade layer of the deposit, expansion of the basal unit is important for long-term production of the mining operations.**

The program totaled 558 RC holes targeting 469 targets throughout the K1, K3 and Confluence areas. Drilling took place inside the known K1 and Confluence zones in order to provide more accurate (tighter spaced) infill holes. Step-out holes were also completed targeting East of K1, northeast of K3, Confluence and inside the security fence of the Venetia Mine.

Following the completion of the 2011 drilling program, DMI produced an updated gravel tonnage estimate in October 2011. The result is an increase of 97.5% in the tonnage of basal gravel. **We believe this is significant as the basal gravel has been shown to carry higher grades. The additional gravel could lengthen the mine life and increase overall carats.** This tonnage estimate does not include grades or mineral resources.

The table below shows a comparison between the tonnages of the 2009 NI 43-101 complaint resource estimate, and the 2011 gravel estimate;

Property Areas	Total 2009	Total 2011	Difference	% Diff
Total surface of area investigated (Ha)	306.75	539.75	233.00	76.0%
Upper Gravels				
Total surface area covered with gravel (Ha)	306.75	361.63	54.88	+17.9%
Average gravel thickness (m)	6.53	5.90	-0.63	-9.6%
Total gravel volume (m^3)	20,039,219	21,247,387	1,208,168	+6.0%
Average density (t/m^3)	2.20	2.09	-0.11	-5.0%
Total tonnes	44,086,282	44,407,038	320,756	+0.7%
Basal Gravels				
Total surface area covered with gravel (Ha)	141.11	269.88	128.77	+91.3%
Average gravel thickness (m)	3.29	3.4	0.11	+3.3%
Total gravel volume (m^3)	4,623,087	9,089,730	4,466,643	+96.6%
Average density (t/m^3)	2.20	2.21	0.01	+0.5%
Total tonnes	10,170,790	20,088,303	9,917,513	+97.5%

Source: Company

The company plans to conduct a bulk sampling program on the K3 and Confluence areas once commercial mining at K1 is achieved. Targets for the bulk sampling have been selected based on the 2011 drilling and other past exploration work. Bulk sampling will test the grades of the deposit, as well as provide a dollar per carat value. DMI plans to begin the bulk sampling program within the next 6-12 months, **an updated NI 43-101 resource estimate will be completed following the bulk sampling program.**

Strategic Alliance with Tiffany & Co

On March 29, 2011, **DMI signed a long-term strategic alliance with the world famous luxury jewellery retailer Tiffany & Co.** Under the agreement, Tiffany & Co retains the first right of refusal to purchase up to 100% of all future production from the project (at prices adjusted over time to reflect market conditions). DMI retains the right to freely market any diamond greater than 10.8 carats ("specials"), and any diamonds not selected by Tiffany & Co on the open market. DMI management has indicated that they expect approximately 10% of the rough diamonds produced each month to be purchased by Tiffany & Co.

Financing of $5.5 million (term debt and convertible debt) was provided by Tiffany & Co in in 2011, as was an additional $4 million in financing (term debt and convertible debt) in the fall of 2012. In April 2013, Tiffany converted $2.30 million of convertible debentures plus interest into common shares at $0.75 per share, resulting in Tiffany holding approximately 9% of DMI's outstanding shares.

This alliance demonstrates the potential of the Krone-Endora project as Tiffany & Co is a global diamond player, and we believe they would not have entered into the alliance without having strong confidence in the project.

Development Timeline and Activities

DMI made large steps towards full scale production in 2012, and early 2013, with the completion of the mining and processing infrastructure.

On August 6, 2013, the company **announced the completion of the main power line**. The 8.4 km power supply line, and an additional 0.7 km power line to the in-field screening plant, will allow the company to stop using the diesel generators that were used up to this point. The power line should result in cost savings and reduced downtime.

The company is in the process of installing a crushing circuit at the main plant. According to management, the crushing plant is expected to be operational within 30 days, and will increase the effective processing of larger size fractions.

Processing of material in the greater than 10mm size fraction started earlier in 2013, and in May, DMI announced the recovery of the property's first "special" diamond, weighing in at 11.23 carats. **Since then, the company has recovered six additional "special" diamonds - 48.26 carat, 20.48 carat, 17.75 carat, 15.16 carat, 13.38 carat, and 12.82 carat.** These were recovered during the initial testing and commissioning stage. **We believe that the recovery of the large diamonds after such minimal processing is encouraging for the future of the project.** Management has also indicated that they have increased their expectations for the rate of recovery of "special" diamonds as the larger stones have been recovered at a considerably higher frequency than originally expected.

DMI is planning to ramp production up to approximately 10,000 carats per month within the next 12 months. The company's long-term production target for the project is approximately **20,000 carats per month (240,000 carats per year) within 24-36 months after the start of trial mining over an estimated 15 year mine life.**

The ramp up to full-scale 24/7 mining is dependent on DMI receiving a mine permit from the South African government. **Management has stated that granting of the permit is expected within the next 60-90 days. Based on this, we believe that the company should be able to start ramping up production this fall.**

Management has stated that production is currently averaging 2,000-2,500 carats per month, and that the processing equipment is performing as expected, and has been meeting or exceeding their expectations. Management expects that the plant is fully capable of meeting the company's 12 and 24 month production targets.

The picture below shows the 200t/h modular processing plant;

Source: DMI December 2012 Corporate Presentation

Sale of Rough Diamonds

In July, DMI announced the sale of 3,123 carats of rough diamonds for total proceeds of US $415,495 (average of US$133 per carat). This average price per carat is a slight drop compared to the price of US$143 per carat that the company received in November 2012. The recently sold rough diamonds were recovered during the testing and commissioning of the expanded quarrying and in-field screening equipment.

To date, the company has sold a total of **6,703 carats of rough diamonds for total gross proceeds of US $926,324, reflecting an average price of US$138 per carat**. Of these, there have been approximately 500 individual rough diamonds weighing 1 carat or more. The company has also delivered an additional 3,500 - 4,500 carats for tender and sale over the next few weeks. **Management has stated that they expect diamond sales to occur every 6-8 weeks from this point onwards.**

Although DMI has successfully completed the sale of 6,703 carats of rough diamonds, the company does not have any long-term contracts with guaranteed purchasers. We believe this is because it is not possible to predict the quantity, quality and size of the diamonds produced from month to month. Therefore, each individual diamond is inspected prior to purchase. In contrast, the producers of other mineral commodities (gold, potash, copper, etc.) can reliably supply a set volume and grade to a buyer on a regular basis.

Instead of having set buyers, the company plans to tender the diamonds for sale on the open market (not including the stones selected for purchase by Tiffany & Co). The majority of buyers for the initial sale of rough diamonds totaled approximately 125 buyers from South Africa and around the world. DMI's management also expects buyers from the emerging markets of China and India to take part in future tenders.

Management has stated that the quantity, size frequency distribution, quality assessment, and

initial price achieved by the rough diamonds recovered, and sold to date, have met or exceeded their expectations. Although DMI is planning to add the "special" diamonds into sales going forward, management has stated that they will remain focused on the normal run-of-mine dollar per carat as it is what gives DMI consistent revenues and earnings.

Management

According to management, management & directors own approximately 15% of the outstanding shares - which, we believe, is a positive sign that management believes in their business model and project. Below are brief biographies of the team, as provided by the company:

Dean H. Taylor, Chairman, Director, Chief Executive Officer
Mr. Dean H. Taylor is a successful entrepreneur and executive with a wealth of acquisition and operational experience. A firm believer in establishing a sound corporate structure and then attaining growth through acquisitions and the implementation of sound operational management, Mr. Taylor has utilized this experience to create the existing opportunities associated with Diamcor. Beginning late in 2005, Mr. Taylor began ensuring the company's corporate structure was attractive prior to leading Diamcor's established operational team towards achieving growth through the pending acquisition of the Krone-Endora project from DeBeers, and preparation for future planned acquisitions. Mr. Taylor is also the founder and CEO of Okanagan Valley Business Consulting Ltd., a private consulting firm which provides executive level consulting services to clients in both the private and public sector. Mr. Taylor has been the founder of several successful private businesses, and held various executive level positions with public companies in both Canada and the United States where he led those entities through both growth related acquisitions and operational project management initiatives over the past fifteen years.

Darren Vucurevich B. Mgt. CMA, Chief Financial Officer and Director
Mr. Vucurevich was appointed to, and has been a member of, the Diamcor Board of Directors since July of 2005. A graduate of the University of Lethbridge in 1992, Mr. Vucurevich followed with his Certified Management Accountant designation in 1995. Since becoming a part of the Diamcor Board in 2005, Mr. Vucurevich has worked closely with the current Management to ensure that all elements of the Company's international operations, accounting, banking, and reporting are continually advancing and developing to meet the requirements associated with its planned growth. Mr. Vucurevich currently operates a successful public accounting practice, and has also owned and managed various other successful companies.

Dean Del Frari, Managing Director of Operations - South Africa
Mr. Del Frari has been with Diamcor since May of 2002, and is the Company's Managing Director of Operations for South Africa. Mr. Del Frari is responsible for management of the Company's South African projects, as well as overseeing other Corporate responsibilities with regards to various Company initiatives worldwide. Originally educated at the University of Alberta and specializing in Marketing and International Business, Mr. Del Frari has also studied Geology, Mining, Metallurgical and Petroleum Engineering. He has advanced training in rough diamond grading from the HODTS in Johannesburg, and holds a Graduate Gemologist Diploma from the Gemological Institute of America.

Mr. Del Frari holds a Masters of Business Administration (MBA) from the University of Liverpool, is a licensed commercial helicopter pilot and has extensive operational field experience in various production based diamond related projects in South Africa. Since 2002 the focus of his activities has been on mining and the marketing of rough diamonds in South Africa and the ongoing review, evaluation and due diligence associated with the Company's current growth objectives.

Dr. Stephen E. Haggerty, Director
Dr. Haggerty is a distinguished research professor and has been recognized as one of the world's leading diamond experts. His extensive knowledge and involvement over four decades in the diamond industry greatly compliments the Company's current growing management team, and enhances their ability to achieve the ongoing acquisition and growth objectives they have set for the Company.

Dr. Haggerty graduated from the Royal School of Mines in Economic Geology in 1964 and received his PhD from the University of London in 1968. This was followed by a three-year post-doctoral Carnegie Fellowship at the Geophysical Laboratory in Washington, D.C., followed by a lengthy tenure at the University of Massachusetts. Dr. Haggerty's ties to South Africa are very strong as he was born in the Witwatersrand Basin of South Africa which is located some 50 km from the bushveld complex and the famous Premier Diamond Mine. He is also the long time land-owner of the property on which yet another famous mine resides, that being the famous Jagersfontein mine, which is located in South Africa's Free State some 110 km south-west of Bloemfontein.

Sheldon B. Nelson, Director
Mr. Nelson is based in New York City and has served as President, Chief Executive Officer and Chairman of the Board of MDU Communications International, Inc., a United States publicly traded corporation since its start-up inception in 1998. MDU is a leading provider of communication services to the residential multi-dwelling unit marketplace and under Mr. Nelson's direction MDU has become a leader in its industry, attracted and closed various significant equity placements, established a growth-based credit facility, and merged with and/or acquired the operating assets of various other companies.

Jim Hawkins B.Sc., P.Geoph., Exploration Manager
Mr. Hawkins has been Exploration Manager at Diamcor since May 2007, and prior to that acted as a consultant to the Company since 2005. Mr. Hawkins graduated from the University of Western Ontario where he received a degree in Geophysics in 1977, after which he has been involved in mining exploration worldwide for over 25 years, including a stint as Manager of Special Projects for Diamet Minerals (Ekati Diamond Mine / Northern Canada) prior to its sale to BHP Diamonds in 2000. He is a Member of the Association of Professional Engineers, Geologists, and Geophysicists of Alberta ("APEGGA"), registered as a Professional Geophysicist, and as such acts as the Company's "Qualified Person" for all Exchange related Company documents and reports.

Management Rating

We have maintained our management rating for Diamcor at **4.0 out of 5.0** as there has not been any significant change to management since our last report.

Outlook on Diamonds

Diamonds can be characterized into two categories depending on their application:

- **Industrial Diamonds -** Diamonds are the hardest known natural substance. This property makes them ideal for industrial processes as well as other properties such as thermal conductivity and electrical conductance. Even though diamonds have a higher unit cost and are expensive, they cut faster and last longer than alternative abrasive materials (chemically very resistant), and therefore, diamonds have proven to be more cost-effective in several industrial processes including: computer chip production (due to their extremely high thermal conductivity), machinery manufacturing, drilling of minerals, stone cutting, highway building, etc.

- **Gem-grade diamonds –** The value of gem-grade diamonds far exceeds the value of industrial-grade diamonds. Clarity and color are important characteristics of gem-grade diamonds. Consumers value diamond's special optical properties (such as high refractive index, dispersion and luster) that give diamonds their "sparkle" – which explains why they are used in jewelry.

Roughly 80% of the diamonds that are mined are used for industrial purposes. However, the value of diamonds for jewelry significantly exceeds the value of diamonds used for industrial purposes. Synthetic diamonds are superior to natural diamonds because they can be produced in unlimited quantities, and their quality and properties can be controlled for specific applications. At least 15 countries have the technology to produce synthetic diamonds. In terms of global usage, synthetic diamonds meet 88% of the demand for diamonds for industrial processes. Synthetic diamonds are also produced for jewelry. However, due to the cultural stigma associated with synthetic diamonds, we do not see synthetic diamonds as being a major substitute for mined diamonds in the jewelry market. Therefore, we believe that the supply and demand fundamentals of diamonds for jewelry will play a more important role in setting prices of natural diamonds in the long-term.

The following chart shows global rough diamond production, and the average price per carat produced in 2012. Russia, Botswana, and the DRC were the leading producers.

Global Production of Rough Diamonds

	Volume (Carats)	Value (US$)	US$ / Carat
Russia	34,927,650	$2,873,728,990	$82.28
Botswana	20,554,928	$2,979,400,297	$144.95
DRC	21,524,266	$183,135,862	$8.51
Rest of the World	50,955,199	$6,608,266,059	$129.69
Total	**127,962,044**	**$12,644,531,207**	**$98.81**
South Africa	7,077,431	$1,027,131,960	$145.13

Source: Kimberly

South Africa produced 7 million carats for an average price of US$145 per carat.

Global production of rough diamonds has dropped by 20% since 2004, as shown in the table below. Rough diamond prices have increased by 54% since 2004.

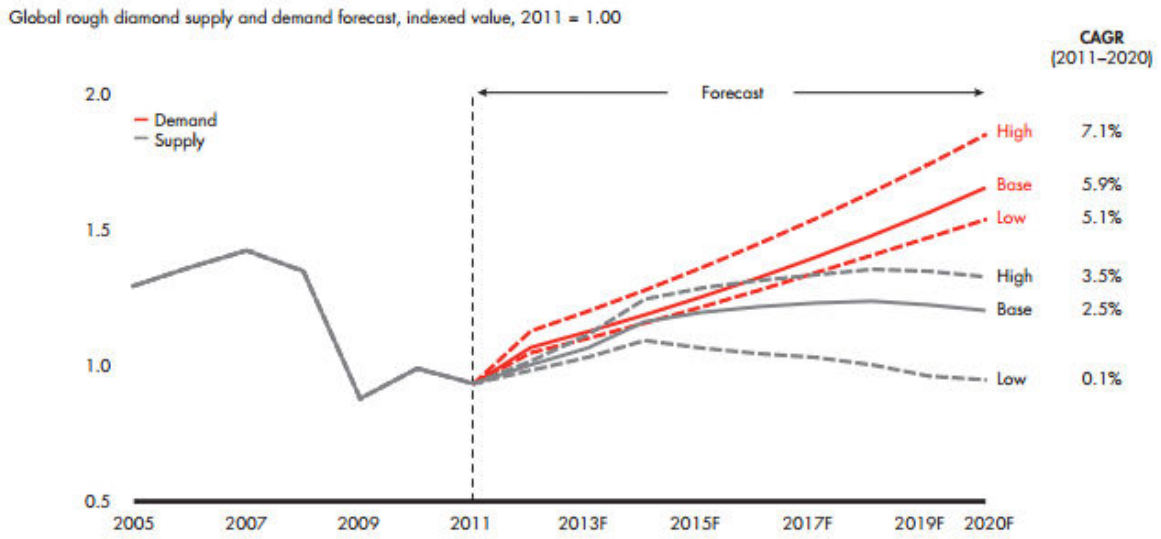
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Global Production (carats)	159.13	176.7	175.92	167.92	162.91	120.22	128.32	122.83	127.96
US$ per Carat	$64.23	$65.68	$68.47	$71.08	$78.16	$68.72	$88.79	$114.51	$98.81
South African Production (carats)	14.09	15.56	14.93	15.21	12.90	6.14	8.86	7.04	7.08
US$ per Carat	$76.34	$84.78	$91.18	$93.18	$95.82	$144.23	$134.75	$197.13	$145.13

Source: Kimberly

The 2012 average price for production in South Africa was US$145 per carat, which is in line with the prices currently received by DMI. The recent drop in price is attributed to the lower demand from China/India, and the overall weakness in the global economy. The recent devaluation of the Indian rupee is likely to continue to negatively impact short-term demand.

Over the long-term, China and India, which have much lower per capita consumption relative to western markets, and developed nations in the Europe, are expected to show strong demand growth of 15% p.a. According to Bain & Company, China and India had extremely strong annual growth of 32%, and 22%, between 2005, and 2011. De Beers predicts by 2015, China, Honk Kong, Taiwan, India and the Gulf will account for nearly 40% of consumer demand (currently 21%). **Bain & Company expects global demand for rough diamonds to grow at 6% p.a. through 2020. However, global production is expected to grow at just 2.4% p.a.**

The consensus supply-demand forecasts for gem-grade diamonds indicates that demand will outpace supply. The following chart shows Bain & Company's supply-demand forecast for rough diamonds.



Source: Bain & Company

We believe there are a couple of primary drivers of this gap between the supply and demand of rough diamonds:

- First, there has not been any major new diamond mine put into production in recent years. In addition, there are large barriers to entry; diamond mines require huge capital requirements and roughly a 7-10 year time lag until a mine is operational.

- Second, the developing countries such as China and India are increasingly growing their demand for diamonds. The culture of buying diamonds in China and India is catching on fast.

Given the strong demand in developing countries, the lack of new mining projects, large barriers to entry and the stigma around synthetic diamonds, we believe the price of diamonds will remain strong and appreciate moderately as demand outpaces supply.

Financials

In FY2013, the company posted revenues of $0.54 million, and a net loss of $4.31 million (EPS: -$0.10). Most of the revenues came in Q3 when the company made its initial sale in November 2012. Operating expenses were $1.81 million in FY2012, and higher than revenues, as the company is still in the commissioning / testing stages. We will start reporting EPS estimates once DMI reaches commercial production – which is when the company will have a regular production / sales schedule.

At the end of FY2013 (March 31, 2013), the company had $0.79 million and negative $2.84 million in cash and working capital, respectively. The table below shows a summary of the company's cash and liquidity position.

(in C$)	2012	2013
Cash	$1,747,313	$793,622
Working Capital	$1,285,054	($2,837,520)
Current Ratio	2.07	0.29
LT Debt/Assets	108.24%	114.68%
Cash from Financing Activities	$863,394	$1,248,639
Revenues	-	$539,979
Net Income	(3,850,638)	(4,305,834)
EPS	-$0.13	-$0.10

Debt: The company had the following debt at the end of March 31, 2013.

- $10.43 million (principal + accrued interest) in long-term debt due to Tiffany & Co. This included:

1) a $3.50 million term loan (term - 5 years; interest - 7% p.a.) and a $2.00 million convertible debenture (term – 5 years; interest – 7% p.a.; conversion price - $0.75 per share), and
2) a $2.40 million term loan (term - 4 years; interest - 9% p.a.) and a $1.60 million convertible debenture (term – 4 years; interest – 9% p.a.; conversion price - $0.1.60 per share).

In April 2013, the $2 million convertible debenture + $0.30 million in accrued interest, were converted into 3.06 million common shares at $0.75 per share.

- $0.93 million due to Nozala Investments – no terms of repayment – interest of 12% p.a.; as mentioned earlier Nozala owns 30% of the Krone-Endora project.

Subsequent Financing – In June 2013, the company completed a non-brokered private placement by issuing 1.50 million units at a unit price of $1.25, for gross proceeds of $1.59 million. Each unit consisted of a common share and one-half warrant (exercise price - $1.75 per share)

We estimate the company currently has about $2 million in cash. As the company has already spent most of the initial CAPEX associated with the project, we do not foresee any need for (external) financings in the near future.

Stock options and warrants: The company currently has 0.82 million warrants (weighted average exercise price of $1.75), and 5.55 million stock options outstanding (weighted average exercise price of $0.62). Approximately 3.85 million options are in the money – if exercised, the company should be able to raise up to $1.25 million.

Valuation

We have maintained our long-term rough diamond price of US$175 per carat. We did not make any major changes to our valuation models. However, our revised valuation model dropped slightly from $2.14 per share to $2.07 per share, due to the share dilution from the recent financing.

We reiterate our BUY rating and maintain our fair value estimate at $2.14 per share.

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The value of the company is dependent on rough diamond prices.
- The Krone-Endora project is in the test mining phase and there is no guarantee that full scale production will be achieved and that it will be profitable.
- A mining right for Krone-Endora has been applied for, but has not yet been granted by the South African government.
- The company is subject to all risks associated with operating in a foreign country (South Africa) with the potential for civil or political unrest.
- Our fair value estimate is based on a resource estimate much higher than the current NI 43-101 resource estimate.
- Heavy rain (such as in Q1 2013) may negatively impact mining operations.
- Exchange rate risks.

Based on the company's progress since our previous report, **we lower our risk rating from 5 (highly speculative) to 4 (speculative).**

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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