

Form 51 – 102F1 – Management Discussion and Analysis  
 Second Quarter Ended September 30, 2004  
 Unaudited – Prepared by Management

## NATURE OF BUSINESS AND LIQUIDITY

Diamcor Mining Inc.'s principal business is the acquisition, exploration and development of resource properties. The Company's principal asset is a 53.33% interest in So Ver Mine (Pty) Ltd., a private South Africa company that owns a diamond tailings processing operation near the town of Kimberley.

The financial results for the period ended September 30, 2004 include the results of mining operations in South Africa. Sales for the period include revenues from diamonds recovered from its tailings activities carried on through its subsidiary So Ver. At September 30, 2004, Diamcor held assets of \$1,295,966 including cash of \$174,423, capital assets recorded at \$316,037 and mineral property assets recorded at \$460,662. Liabilities totalled \$1,458,039 including \$400,948 in accounts payable and accrued liabilities and loans of \$604,382.

## RESULTS OF OPERATIONS

Sales revenues during the quarter of \$375,725 (2003; \$316,587) relate to sales of diamonds recovered from its tailings activities at the So Ver facility in South Africa. These produced a gross margin of \$154,574 (2003; \$95,937) and a net loss before tax of \$186,428 (2003; \$(282,376)) which reflects the improvement in productivity at the So Ver Mine following significant improvements both in the state of repair of the Company's processing equipment which were financed entirely by cash flow from operations and process improvements brought about by the development of the workforce throughout the year.

The Company continued its restraint of expenditures at a corporate level and has maintained its focus on developing opportunities for expansion of future prospects.

The continuing legal disputes over the So Ver operation hamper the ability of the Company to utilise cash flows from its subsidiary company, but if it manages to resolve these restrictions during calendar 2004, the ability of the company to expand its development and exploration activities will improve substantially. The resolution of these legal issues has been a focus of managements' attention during 2004 and is reflected in legal and professional fees.

As noted, the acquisition of 53.33% of the So Ver mine in South Africa on March 31, 2003 is reflected in the improved asset base during 2003 compared to 2002. Fiscal 2004 saw the consolidation of revenues from these operations included in the financial statements for the first time.

The results for the last 8 quarters are summarised below (figures in \$000's except per share amounts).

|           | Gross Revenues<br>\$000's | Income<br>\$000's | Income Per<br>Share<br>\$ | Income per<br>Diluted Share<br>\$ | Net Income<br>\$000's | Net Income Per<br>Share<br>\$ | Net Income per<br>Diluted Share<br>\$ |
|-----------|---------------------------|-------------------|---------------------------|-----------------------------------|-----------------------|-------------------------------|---------------------------------------|
| 31-Dec-02 | 0                         | 0                 | 0                         | 0                                 | (142.0)               | (0.01)                        | 0.00                                  |
| 31-Mar-03 | 0                         | 0                 | 0                         | 0                                 | (222.0)               | (0.01)                        | (0.01)                                |
| 30-Jun-03 | 248.0                     | 41.0              | 0.01                      | 0.00                              | (188.0)               | (0.01)                        | (0.01)                                |
| 30-Sep-03 | 317.0                     | 96.0              | 0.01                      | 0.00                              | (282.0)               | (0.01)                        | (0.01)                                |
| 31-Dec-03 | 431.0                     | 216.0             | 0.02                      | 0.01                              | (56.0)                | 0.00                          | 0.00                                  |
| 31-Mar-04 | 126.0                     | (36.0)            | 0.00                      | 0.00                              | (461.0)               | (0.02)                        | (0.01)                                |
| 30-Jun-04 | 777.0                     | 412.0             | 0.03                      | 0.01                              | 56.0                  | 0.00                          | 0.00                                  |
| 30-Sep-04 | 376.0                     | 154.6             | 0.01                      | 0.00                              | (188.5)               | (0.00)                        | (0.00)                                |

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## SO VER MINE

The So Ver Mine is located 65 kilometres northwest of Kimberley, South Africa and is immediately adjacent to the Rex diamond mine. Diamcor has a 53.33% interest in the holding company that controls the So Ver Mine and has Canadian management on site that oversee the operation of the tailings-reprocessing mine.

A report, prepared May 2002, by the Toronto based MPH Geological Consulting indicated that over 1,400,000 tonnes of tailings were available for reprocessing at the So Ver site containing an estimated 95,200 carats of diamonds, at an average of US\$50 per carat. The extrapolation of the report's findings suggests that the tailings have a potential value of US\$4.76 million and a life span of approximately four years. The MPH report also makes significant reference to the need for further exploratory examination of the pipes and dykes that exist on the So Ver property. At present, So Ver Mine (Pty) Ltd. only has permits in place for surface rights. Through its wholly owned subsidiary, Ongoza Mining & Exploration (Pty) Ltd., Diamcor has applied for a permit that would cover subsurface exploration on the property. This is scheduled to start in late 2004.

Since the change in mine management on April 1, 2003, recovery from tailings processing has improved substantially from the original MPH estimates. Management reports that a total of 11,934.98 carats were recovered during the period from April 1, 2003 to March 31, 2004. The value of diamonds recovered during that time period totalled R5,577,905 or US\$789,061. Shareholders should note that during that time, the mine was shut down for part of December, as well as during January and February. The restructuring of management, supervisors and employees, as well as the high loss in production time due to extensive maintenance and repairs, had a significant impact on the overall profitability for the fiscal year.

Other factors affecting ongoing profitability include tailings piles that may vary in the quality and quantity of diamond yield, the price for diamonds may fluctuate and the value of the South African Rand as compared to the U.S. dollar is subject to change to Diamcor's detriment. As an example, the US dollar has declined against the South African Rand changed from 7.88 in April, 2003 to 5.94 in November, 2004, a decrease of 25%.

With the improvements to the processing plant made earlier in the year, the mine is currently operating 24 hours a day, 7 days a week. Since the start of production this year, running times have increased to 85%. Tailings (ore) processed through the plant have also increased by as much as 20% in a single month when compared to last year's figures.

Following are the sales results (after acid wash) for the 6 months ended September 30, 2004. Of note was a significant find during the month of May. A gem quality 8.13-carat stone was recovered from the mine qualifying it as the largest diamond on record for at least the past four years. Numerous other high quality gemstones in the 1.5 to 4.5 carat range were also recovered.

| <u>Month</u>   | <u>Carats</u>    | <u>Rand</u>       | <u>USD</u>         | <u>USD/ct</u>   | <u>Exchange</u> |
|----------------|------------------|-------------------|--------------------|-----------------|-----------------|
| Apr            | 680.43           | R 443,686         | \$ 70,438          | \$103.52        | 6.30            |
| May            | 1,694.62         | R 968,082         | \$ 142,365         | \$ 84.01        | 6.80            |
| June           | 3,203.31         | R2,140,754        | \$ 338,191         | \$105.58        | 6.33            |
| July           | 1,804.40         | R 873,118         | \$ 144,079         | \$ 79.85        | 6.06            |
| August         | 2,587.58         | R1,177,131        | \$ 179,516         | \$ 69.38        | 6.56            |
| Sept/Oct       | 2,805.89         | R1,096,509        | \$ 166,661         | \$ 59.40        | 6.57            |
| <b>Totals:</b> | <b>12,776.23</b> | <b>R6,699,280</b> | <b>\$1,041,250</b> | <b>\$ 81.50</b> | <b>6.44</b>     |

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Sales numbers differ from production numbers because of the loss in the acid cleaning process and because diamonds produced in one month are sometimes carried over and sold with those produced in the next month.

### **Estimates & Forecasts**

As far as production and recovery is concerned, management estimates that So Ver should have its most profitable year in recent history. Projections are estimates only, as the volatile Rand price, the amount of tailings being processed and the world demand for diamonds all have a major impact on the figures, which factors are not under the control of management.

The mine will close for four to five weeks during December and January for holidays and maintenance.

As for tailings reserves, So Ver is currently processing approximately 26,000 tons/month. This number could increase to approximately 30,000 tons/month, subject to possible limitations due to plant design and related constraints. However, management believes that 27,000 tons is a realistic and conservative figure of the number of tons that it can process consistently each month in order to determine the anticipated mine lifespan.

### **LEGAL PROCEEDINGS**

In March 2003, Diamcor commenced legal proceedings in South Africa against Mr. Nicolaas Van der Merwe and obtained an order from the South African High Court requiring him to provide Diamcor with access to all information concerning So Ver's mine operations. The Court also issued a search warrant authorizing the confiscation of all diamond and mine operation data from Mr. Van der Merwe's office and residence. The order was executed and resulted in the seizure of significant quantities of diamonds and business records.

After a review of the seized documentation, the High Court ruled that the So Ver Mine be operated by an independent board that included a representative of Diamcor. Diamcor has since filed multiple legal claims against Mr. Van der Merwe and related parties for misappropriation of approximately \$1.64 million dollars worth of So Ver assets. The trial of this matter is scheduled for August 2005.

At an interim hearing held during the quarter, Diamcor was awarded sole control over operations of the So Ver mine. Until the decision, the mine was operated by a tripartite board consisting of one representative of Diamcor, one representative of Mr. Van der Merwe and an independent member.

As part of his response to Diamcor's claims, Mr. Van der Merwe commenced a legal action in British Columbia against the Company for defamation, abuse of process and breach of contract. During the quarter, Mr. Van der Merwe discontinued the law suit. Diamcor and Mr. Van der Merwe are now in negotiations to settle all remaining disputes between the parties that form the basis of the remaining South Africa litigation.

### **MANAGEMENT**

Diamcor's Board of Directors consists of Wayne Wolf, Barry Conduit and Corrie Maddaford. Mr. Wolf acts as President and Chief Executive Officer and Ms. Maddaford is the Corporate Secretary.

During the period management fees (CDN office) of \$18,750 were paid to a company owned by Mr. Wolf, and wages of \$8,169 to Ms. Maddaford, the Company's Corporate Secretary.

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## **INVESTOR RELATIONS**

There were no investor relations agreements in place with any parties during the quarter.

## **SECURITY ISSUANCES**

There were no security transactions during the quarter.

## **OUTLOOK AND SUBSEQUENT DEVELOPMENTS**

On May 6, 2004 Diamcor announced that it had concluded a prospecting agreement with the owners of a potential diamond property located in the Free State Province of South Africa. The agreement provides Diamcor with the exclusive right to prospect and search for diamonds on the property for a period of 12 months.

During the term of the prospecting agreement, Diamcor has the option to acquire the surface and mineral rights to the property for 3,000,000 South African Rand. If the option is exercised, Diamcor must pay 1.25 million Rand to the owners upon the transfer of the deed to the property and pay the balance within 12 months from the transfer date.

Diamcor is now in the process of applying to the South African Department of Minerals and Energy for a prospecting permit for the property and intends to commence initial exploration immediately thereafter. It is the Company's intent to diversify its South African operations to include not only the current tailings operations at the So Ver Mine, but also to build a portfolio of diamond exploration and mining assets in both kimberlite and alluvial projects throughout South Africa. As part of this business thrust, the Directors spent time negotiating with various landowners regarding acquiring interests in properties that Diamcor has targeted due to their significant geological potential. This resulted in the execution of a concession agreement on the Hartebeespan diamond prospect in the Free State.

In May 2004, Diamcor's Directors also met with different Black Economic Empowerment ("BEE") groups in the country to enable Diamcor to forge relationships with key individuals and companies to fulfill the Department of Minerals and Energy requirements regarding the development of mineral and diamond projects in the country and the extended participation of Blacks in the development of the South African economy.

In parallel with these meetings and to set the stage for the future development of this proposed arrangement, the company's subsidiary Zelpy 1623 (Pty) Ltd was renamed Ongoza Mining & Exploration (Pty) Ltd. ("Ongoza").

Subsequently, on June 22, Mr. Wayne Wolf, President and CEO, announced the Company had officially completed a share sale agreement with a South African BEE group, Pholo Mining (Pty) Ltd. ("Pholo"). Considered a milestone development, the agreement is expected to dramatically bolster the company's ability to find and secure mining propositions in RSA.

Given the substantial progress being achieved, and the desire to push forward with the various growth initiatives above, Diamcor is in the final stages of securing a formal agreement with Okanagan Valley Business Consulting to assist Management with the production of an updated business plan, financial support documents, working budgets, and various other initiatives aimed at the IR/PR portion of the business. For the past several months Management from the two companies have been working together under an informal understanding and non-disclosure agreement to explore what additional items and programs could be put into place to better raise Diamcor's awareness within the financial market, as well as within the mining sector in general. Various projects have been identified and work is underway to ensure

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suitable documents and support information are available to help the Company achieve its long term goal of increasing its market share and enhancing revenues through additional projects and exploration.