

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Diamcor Mining Inc. (TSXV: DMI, OTCQX: DMIFF) – Near Term Commercial Diamond Producer Adjacent to South Africa's Top Producing Mine – Initial Sale of Rough Diamonds and Ramp up to Trial Mining

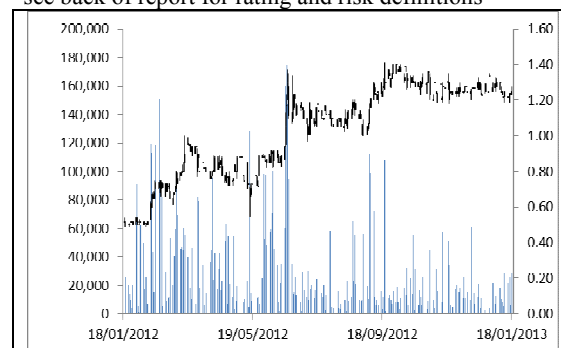
Sector/Industry: Junior Mining/Exploration

www.diamcormining.com

Market Data (as of January 18, 2013)

Current Price	C\$1.23
Fair Value	C\$2.14 (↑)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.49 - C\$1.41
Shares O/S	30.10 mm
Market Cap	C\$37.02 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	136.5%
YoY TSXV	-20.4%

*see back of report for rating and risk definitions



Key Financial Data (YE- March 31)

(C\$)	2012	2013 (6M)
Cash	1,747,313	595,819
Working Capital	1,208,915	82,565
Property, Plant and Equipment	1,482,195	1,462,076
Total Assets	6,312,358	5,163,474
Net Income	(3,850,638)	(1,918,509)
EPS	(0.13)	(0.05)

Investment Highlights

- Diamcor Mining Inc. is a TSX Venture listed junior mining company with an established operational history that 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. A 2009 NI43-101 compliant inferred resource estimate for Krone-Endora states 54.26 million tonnes of diamond bearing gravels containing an estimated 1.31 million carats. This covers only a small portion of the Krone-Endora area; the company is currently targeting up to 5.0 million carats.
- The company has a long-term strategic alliance with Tiffany & Co (NYSE: TIF).
- Initial sale of rough diamonds totaled 3,579.58 carats for proceeds of US\$510,829 (average of US\$142.71 per carat). The diamonds were from testing and commissioning of the processing equipment that has been ongoing since spring 2012.
- Trial mining is projected to begin in January 2013, with ramp up to 10,000 carats per month within 12 months and 240,000 carats per year within 24-36 months.
- The company has proven operational and diamond processing experience from previous South African diamond operations.
- We believe near term catalysts are the ramp up to trial mining and the processing of material in the greater than 10mm size fractions, both expected in early 2013.
- DMI shares are up 137% YOY versus the TSX Venture's -20%.

Risks

- The company has yet to commence commercial production.
- Access to capital and share dilution.
- The company is subject to all risks associated with operating in a foreign country (South Africa) with the potential for civil or political unrest.
- 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.
- Our fair value estimate is based on a resource estimate higher than the current NI 43-101 resource estimate.

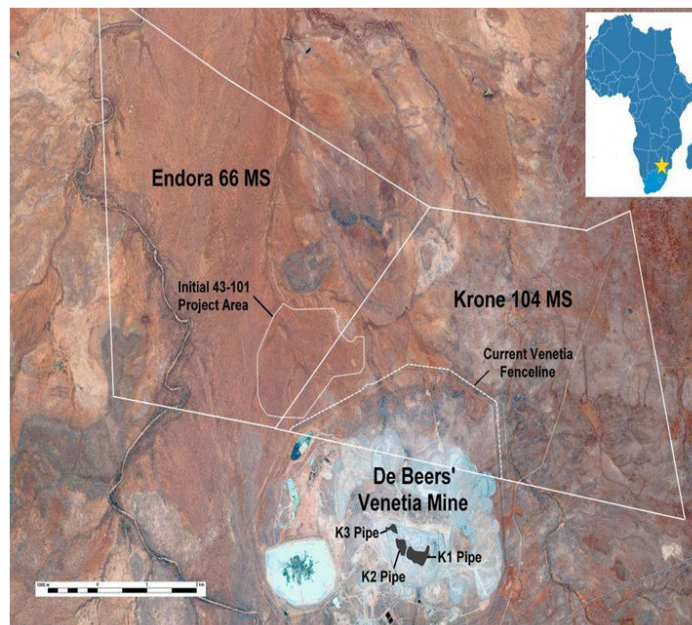
Diamcor Mining Inc. completed the acquisition of the Krone-Endora diamond project from De Beers in 2011. This was shortly followed by the establishment of a long term strategic alliance with Tiffany & Co. The project has initial resources of 54.26 million tonnes of diamond bearing gravels containing an estimated 1.31 million carats of diamonds. Trial mining is scheduled to start in January 2013, ramping up to production levels of 10,000 carats per month within the first 12 months.

**Corporate
Overview**

Diamcor Mining Inc. (“DMI” or “the company”), is a TSX Venture listed mining company with an established operational history and is currently in the final stages of developing the Krone-Endora at Venetia diamond project in South Africa. The company’s long-term strategy is to acquire and develop various diamond related properties. Particular focus is on projects that hold the potential to provide near-term rough diamond production and long-term cash flow.

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 well-established South African Black Economic Empowerment company. **The Krone-Endora project is located directly adjacent to the De Beers Consolidated Mines Limited’s (“De Beers”) Venetia diamond mine, which is the third largest diamond mine in the world and South Africa's largest diamond producer.**

Figure 1: Location of Krone-Endora



Source: DMI December 2012 Corporation Presentation

Shortly after the acquisition of the Krone-Endora diamond project, DMI finalized an 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. Financing of \$5.5 million (term debt + convertible debt) was provided by Tiffany & Co in order to expedite development of Krone-Endora. An additional \$4 million in financing (term debt + convertible debt) was provided by Tiffany & Co in the fall of 2012. The company plans to use the most recent funding to expand and enhance the quarrying and screening operations.

The Krone-Endora project has a 2009 NI 43-101 compliant inferred level resource estimate

of **54.26 million tonnes of diamond bearing gravels containing an estimated 1.31 million carats of diamonds**. Drilling completed in 2011, future bulk sampling at the K3, and Confluence areas, will be used to support an updated NI 43-101 resource estimate once commercial production at the K1 area is established. Testing and commissioning of the sorting and processing equipment began in spring 2012 (at the K1 area), and the ramp up to trial mining is expected in early 2013. **Production is projected to reach 10,000 carats per months over the next 12 months.**

The company completed an initial sale of rough diamonds from the Krone-Endora project in November 2012. This totaled 3,579.58 carats of rough diamonds for proceeds of US\$510,829 (average of US\$142.71 per carat). The rough diamonds were recovered during testing and commissioning exercises at the K1 area with the majority quarried from the lower-grade upper zone gravels, and the only material processed coming from the +1.0mm to -10.0mm size fraction.

Management has past operational experience in the diamond industry through the company's So Ver diamond tailings reprocessing project. The So Ver project operated for seven years on a continuous basis (24 hours a day, 7 days a week) and was completed in 2006. **According to the company, the past operations have allowed management to form relationships with various industry suppliers, technical groups and major diamond miners (such as De Beers) as well as to gain intimate knowledge of the government policies and permitting procedures.**

Corporate Structure

The parent company, DMI has four South African subsidiaries, as displayed in Figure 2.

Figure 2: DMI Corporate Structure



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 Krone-Endora from De Beers in conjunction with DMI's BEE partner, Nozala Investments (Pty) Ltd.
- ***So Ver Mine (Pty) Ltd*** is the Company's previous project as noted, and the project has now been completed. The Company currently retains an 85% ownership position in So Ver; however, Diamcor is in the process of selling its 85% interest and the remaining lands assets. Finalization of the transaction is expected to be forthcoming and no further expenses associated with the So Ver operations are being incurred.
- ***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

Project Overview

The Krone-Endora diamond project sits immediately adjacent to the Venetia Mine, South Africa's largest diamond producing mine. The mine is owned and operated by De Beers, from whom the company acquired the Krone-Endora project. The Krone-Endora project is both an eluvial and alluvial diamond project, and thus, was determined to be outside of De Beer's core focus, which is directed towards kimberlite (primary source) deposits. The acquisition of the Krone-Endora project from De Beers was completed on February 28, 2011.

The project has an initial NI43-101 compliant inferred resource estimate of 54.26 million tonnes of diamond bearing gravels containing an estimated 1.31 million carats of diamonds. The current 43-101 defined resource is from surface to a shallow depth of approximately 15 meters, and management has indicated that it should be exploitable by simple and low-cost strip mining.

An updated estimate of lower/basal gravel tonnage was released in October 2011. It was based on results from the 2011 drilling program and increased the tonnage to a total of 64.5 million tonnes for this section of the gravels. Grades have not been reported for this additional material, so there is no contained diamond estimate associated with this tonnage increase.

Due largely to the adjacent Venetia mine, the area has well established infrastructure capable of handling a full-scale diamond mining operation. Proximity with the Venetia Mine has also increased security for the Krone-Endora project.

Site construction at Krone-Endora has been completed and commissioning and testing commenced in June 2012. The company plans to move to a trial mining phase during January 2013, that will see production ramp up to 10,000 carats per month within the first 12 months. During the testing and commissioning exercises, the company was employing an average of 60-75 local employees and contractors. As work shifts from construction to trial-mining, and into full scale production, this number is expected to remain similar, with a shift from welders and fabricators to production related employees.

The initial sale of rough diamonds from the Krone-Endora project occurred in November 2012. This totaled 3,579.58 carats of rough diamonds for proceeds of US\$510,829 (average of US\$142.71 per carat). The rough diamonds were recovered during testing and commissioning exercises at the K1 area, and as noted previously, were from material recovered primarily from the lower-grade upper zone of the K1 area, and the processing of only material in the +1.0mm to -10.0mm size fraction. The dollar per carat estimate provided for this area in the NI43-101 report was noted to be \$70.00 per carat.

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"). Nozala is a well-established 100% women owned South African Black Economic Empowerment company whose investments represent the interests of an estimated 500,000 rural women shareholders.

Under the terms of the agreement, 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.

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") on the open market.

In addition, Tiffany & Co provided \$5.5 million financing for project development. DMI retains the right to tender for sale any diamonds not selected by Tiffany & Co. Management has indicated that they expect approximately 10% of the rough diamonds produced each month to be purchased by Tiffany & Co. An additional \$4 million in financing was provided by Tiffany & Co in November 2012, for further quarrying and screening developments. **This alliance shows 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.**

Location/Accessibility/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 project sits directly adjacent to the Venetia Mine operated by De Beers and infrastructure in the area is designed for servicing a major mining operation. Access to the property is by 9km of well-maintained roads from the Venetia outer security fence. **We believe that the project's location, and the access road's proximity to the Venetia Mine property, provide an enhanced level of security for the project.**

The climate in the area is arid and should have minimal effect on a mining operations. The area typically sees year-round sunshine, allowing for operations to continue through all seasons.

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 and operation of a surface mining project at Krone-Endora.

Throughout 2011, DMI was improving access roads for the purpose of drilling and transportation of production equipment to the site. Further development of the area in preparation of production also took place in 2011 and 2012. Major additions to the Krone-Endora site infrastructure include;

- Construction of a 9km primary access road to support the ongoing needs of the project for the long-term.
- Installation of approximately 4km of high strength, solar powered, electrical security fencing and gates around the areas chosen for trial mining and the plant site.
- Completion of civil engineering works, construction of a 5m raised wall around the plant site, installation of the modular processing plant, final recovery units, associated offices and workshops.
- Installation of approximately 14km of water pipelines and installation of an approximately 7km main power-line to the project.

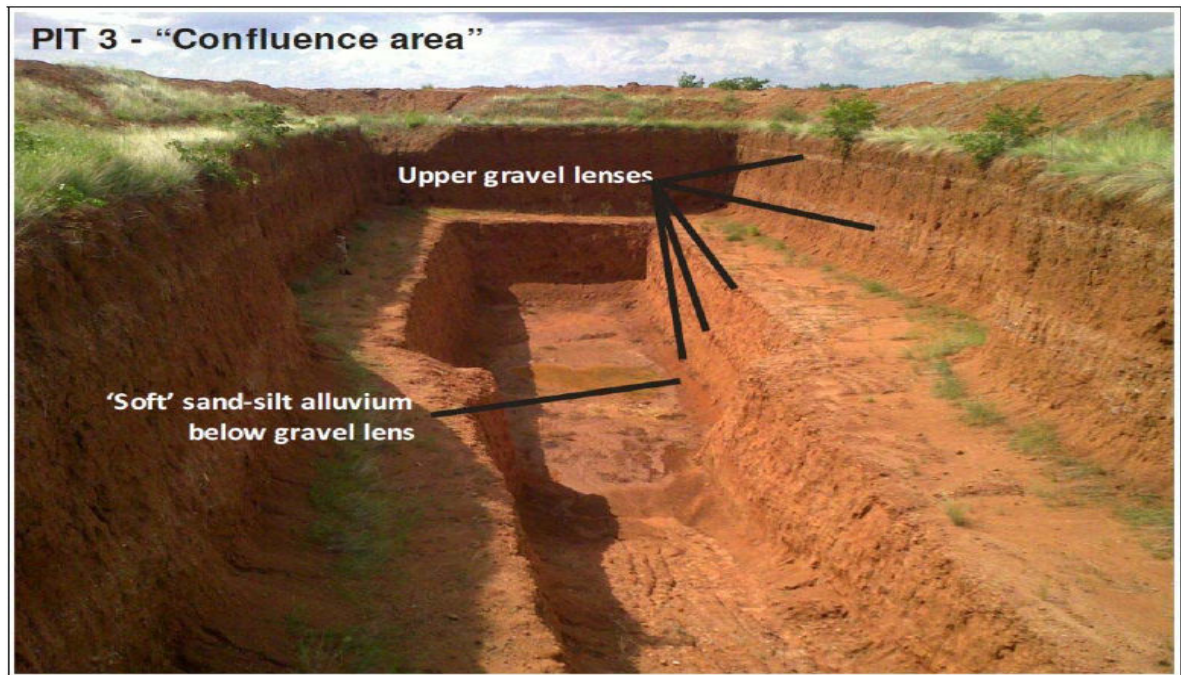
With these improvements to the infrastructure, we find that DMI has made important steps towards full scale production at the property.

History

Initial exploration on the Krone-Endora property was performed by De Beers in the 1980's. This included a limited 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. This data was later utilized by Mr. J.F. Grobbelaar [Pr.Sci.Nat] MGSSA in his NI 43-101 compliant technical report and resource estimate completed for DMI in 2009.

Figure 3: Sample Pit 3 from De Beers 2004 exploration program



Source: 2009 NI 43-101 Technical Report

Geology and Mineralization

The Krone and Endora farms are situated adjacent to the Venetia Mine which is owned and operated by De Beers. 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. The mine had 2007 production numbers of 9.0 M cts/yr (0.75 M cts/mo).

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 crustal surface.

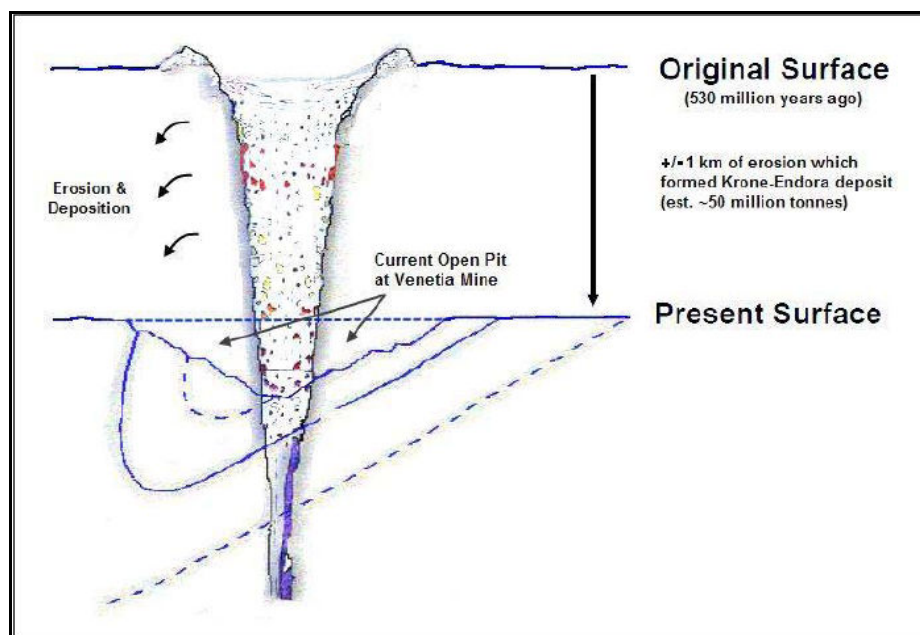
Kimberlites and Diamonds

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, thus, diamond

bearing xenoliths are moved closer to Earth's surface.

Figure 4 shows the interpreted cross section of the K1 kimberlite pipe at the Venetia mine. **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.**

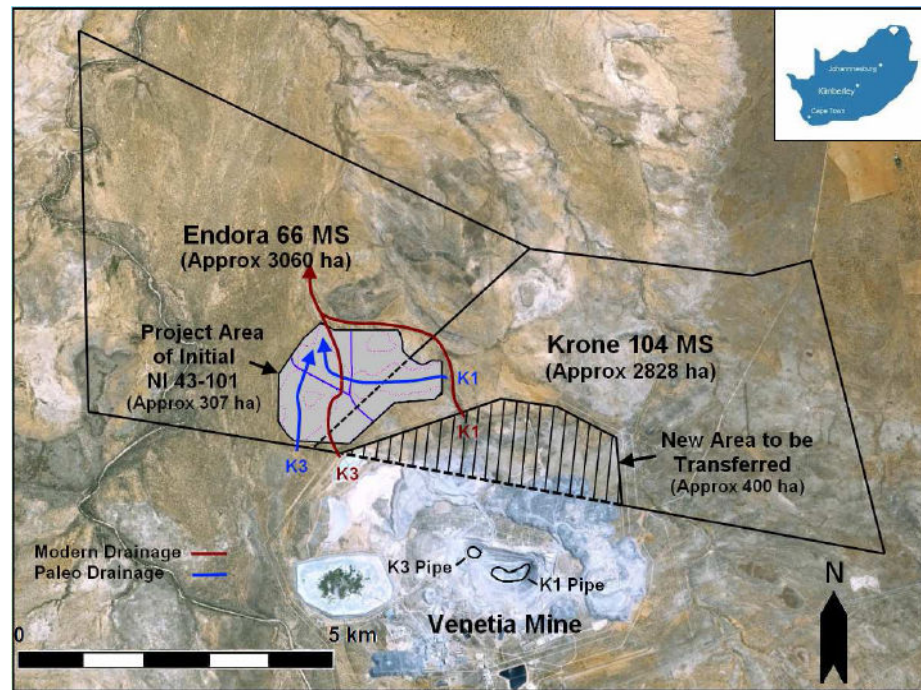
Figure 4: Interpreted cross section of the original kimberlite pipe at the Venetia Mine. The eroded portion is proposed to be the source of diamond bearing gravels on the company's property.



Source: 2009 NI 43-101 Technical Report

Figure 5 below shows the location of the Venetia mine and associated kimberlite pipes as relative to the company's Krone-Endora project. 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.**

Figure 5: The Endora and Krone prospecting licenses and adjacent Venetia Mine.



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 more 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; DMI expects similar diamond size, frequency and quality within the Krone-Endora deposit. **According to management, the diamonds recovered at Krone-Endora to date have been in the range of 60-65% gem quality.**

The lower percentage of gem quality diamonds is likely due to the erosion and transport of material. During erosion, and 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.

Mineralization 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 metres while the upper unit has a maximum thickness of 12 metres. **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 in Figure 5 above). The Confluence area is where these two drainage paths merged together.

Exploration Update

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 was originally designed to consist of 390 near surface RC holes targeting K1, K3 and Confluence areas, to be completed in three phases. However, after a successful phase 1, involving the drilling of approximately 230 targets, DMI expanded the program to 469 targets. Phase 1 took place inside the known K1 and Confluence zones in order to provide more accurate (tighter spaced) infill holes; as well as step-out drilling to the East of the K1 area. 50 of the additional holes targeted areas to the northeast of K3, Confluence and inside the security fence of the Venetia Mine.

In total, the 2011 drill program consisted of 558 drill holes designed to define the base of the diamond bearing gravels. The drilling also expanded the size of the overall deposit to include areas beyond what was explored by De Beers. Information collected was used during the design and construction of the processing plant and other infrastructure.

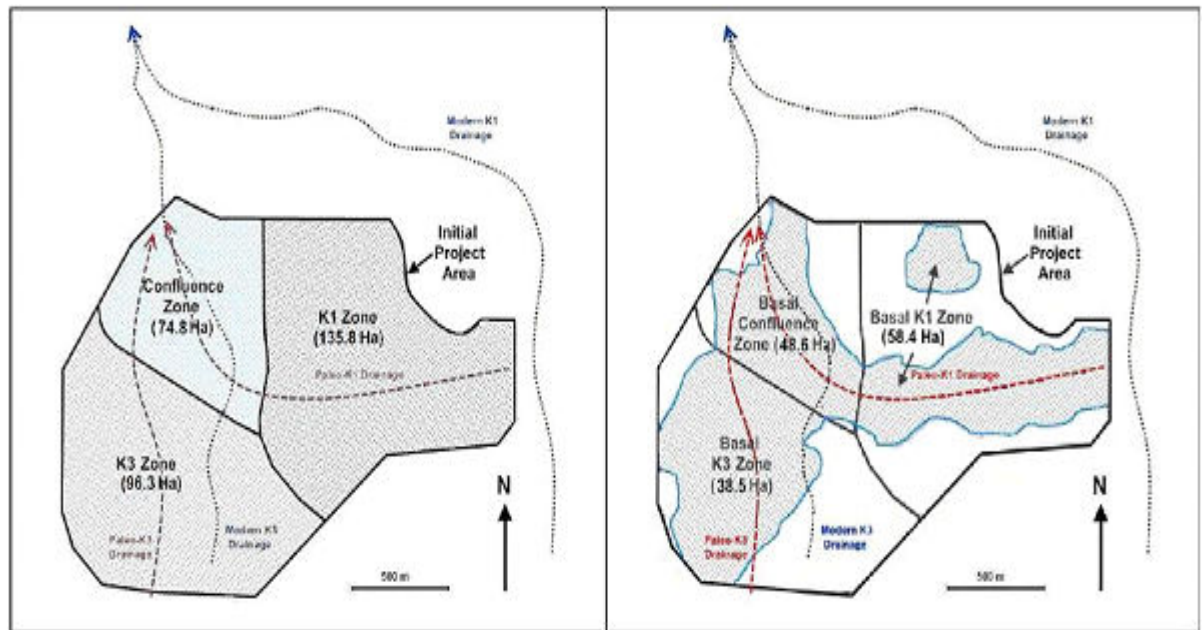
The company plans to conduct a bulk sampling program on the K3 and Confluence areas once commercial mining at K1 is achieved. Targets for the bulk sampling have been selected based on the 2011 drilling and other past exploration work. Bulk sampling will test the grades of the deposit, as well as provide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

Resource Estimate

The property has a current initial NI 43-101 compliant inferred resource of 54.26 million tonnes of diamond bearing gravels containing an estimated 1.31 million carats of diamonds. The resource area is shown in Figure 6 below and pertains only to areas of the project for which exploration work was completed by DMI or De Beers prior to 2011 (totaling approximately 307 hectares).

The NI 43-101 resource estimate includes the K1, K3 and Confluence areas. These zones have been subdivided into the basal and upper gravel units discussed above.

Figure 6: Paleo-drainage is represented by dashed arrows, modern drainage by dotted arrows.



Source: 2009 NI 43-101 Technical Report

Following the completion of the 2011 drilling program, DMI produced an updated tonnage estimate in October 2011. The result is an increase of 97.5% in the tonnage of basal gravels. **We believe this is significant as the basal gravels have been shown to carry higher grades, and thus, the additional gravels could lengthen the mine life and increase overall carats.** The new estimate covers approximately 540 hectares, an increase of 233 hectares over the area covered by the NI 43-101 compliant resource estimate. The lateral extent of the gravels has been expanded to the east, north and west of the original zone and the gravels remain open to the south-east, north-west and west. **This estimate does not include grades or mineral resources. DMI is waiting until bulk sampling can be completed before determining grades and producing an updated 43-101 resource estimate.**

Table 1: Comparison between 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

Development Timeline and Activities

Trial mining at the K1 area is expected to begin in early 2013, with production ramped up to approximately 10,000 carats per month within 12 months. The company's long-term production target for the project is approximately **240,000 carats per year within 24-36 months after the start of trial mining over an estimated 15 year mine life.** The processing plant, and infrastructure on the Krone-Endora property, allows for an initial processing rate of approximately 200 tonnes of gravel per hour (t/h).

Processing Equipment Overview

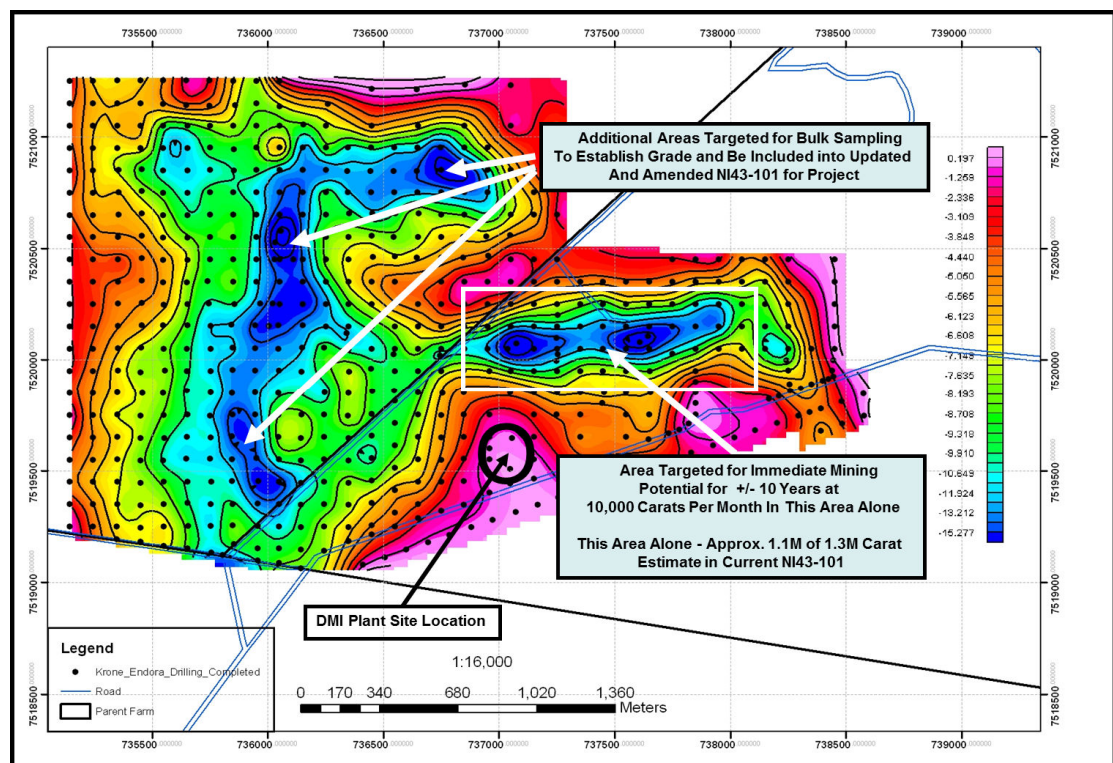
The processing flow sheet consists of screening at the quarry site to remove fines less than 1mm in size, followed by sorting at the modular processing plant to separate out the diamonds.

Delivery of mining and processing equipment to the K1 area commenced in the fall of 2011 and was ongoing throughout 2012. **The modular diamond processing plant is designed to handle DMI's target of increasing production to 10,000 carats per month for the initial 12 months of trial mining, to an overall goal of 240,000 per year once in full production.** The plant uses 16' (inch) pre-concentrating pans and dense media separation, followed by primary hands-off sorting with a Flo Sort x-ray system. The concentrate is then passed over a grease table for secondary sorting. This initial system can be modified as production proceeds to match changing needs of the project. The use of a hands-off system will help ensure security, reducing potential product loss, during the diamond recovery process. **DMI's management team has operational experience with these types of processing systems from past production at the company's former So Ver diamond tailings re-processing operation.**

DMI has installed a H6203 Terex Power Screen at the K1 quarry site with the intention of removing up to 45% of the non-diamond bearing material through dry screening. The H6203 has a potential head feed capacity of 800 tonnes per hour and removes the very fine material (less than 1mm size fraction). **The company has stated that the use of this equipment has the potential to decrease operating costs, and water consumption over the long-term operation of the project, as it will reduce the tonnage of material being transported and run through the processing plant.**

Additional dry scrubbing and screening equipment is currently being installed at the quarry site. This will be used to sort material in the greater than 10mm size fraction prior to it being run through the processing plant.

Figure 7: Bed rock contour map showing the processing facility and target areas.



Source: DMI December 2012 Corporate Presentation

Testing and Commissioning

Initial testing of the Flo Sort system started in early 2012. DMI used 3 tonnes of the 10 tonnes of concentrate left behind by De Beers from past bulk sampling and exploration. The concentrate was recovered from assorted depths around the K1, K3 and Confluence Zones. A total of 1,877 rough diamonds were recovered with a total weight of ~143.96 carats (~28.8g). 6 diamonds were recovered at greater than 1 carat, with the 2 largest being 3.93 and 2.09 carats.

In June 2012 DMI began full scale commissioning and testing of the 200 tonne/hour modular processing plant. The company has stated the goals of the commissioning and testing exercises as being to;

- *evaluate operational efficiencies of the in-quarry screening equipment*
- *assess processing capacities and recovery parameters for the modular processing plant*
- *assist the company in determining modifications required, if any, to enhance Project efficiencies/recoveries for the long-term*

By September 2012, DMI had recovered a total weight of 1,214.86 carats in rough diamonds. This included 85 diamonds weighting 1 carat or greater, **the largest diamond recovered to date is 9.83 carats**. So far, only material in the 1-10mm size range has been processed, with the larger size fractions currently stockpiled. **We believe there may be potential to recover larger diamonds from the greater than 10mm sized gravels based on the recoveries from the material processed to date.**

Figure 8: The quarry at the K1 area being prepared for trial mining (note the waste rock piles from the Venetia Mine visible in the background showing the proximity of the two operations).



Source: DMI December 2012 Corporate Presentation

Commissioning of the 200t/h modular processing plant was completed in late 2012, and DMI is planning to work towards staged monthly production increases as part of the trial mining phase. **Management has indicated that production is expected to increase to an average of 200t/h during January 2013.**

Figure 9: Image of the 200t/h modular processing plant.



Source: DMI December 2012 Corporate Presentation

DMI has made large steps towards production in 2012 with the completion of the mining and processing infrastructure. The addition and subsequent testing of the Flo Sort system returned promising results for the recovery of rough diamonds from Krone-Endora. We believe this indicates that the company is strongly committed to bringing the project to full production during 2013.

Initial Sale of Rough Diamonds

In the end of November 2012, DMI announced the sale of 3,579.58 carats of rough diamonds for total proceeds of US\$510,829 (average of US\$142.71 per carat). The rough diamonds were recovered during the above mentioned testing and commissioning exercises. All rough diamonds recovered to date are from quarried material in the 1-10mm size fraction at the K1 area. Discussions with management indicate that this is promising for the project as material in the larger size fractions are expected to host larger individual stones.

Out of the rough diamonds sold, 362 weighed 1 carat or more with a combined weight of 659.33 carats. The size distribution breakdown for the rough diamonds above 1 carat is provided below;

- 264 diamonds (total 352.82 carats) between 1 and 2 carats in size
- 58 diamonds (total 138.78 carats) between 2 and 3 carats in size

- 23 diamonds (total 81.02 carats) between 3 and 4 carats in size
- 13 diamonds (total 56.09 carats) between 4 and 5 carats in size
- 1 diamond of 5.37 carats
- 1 diamond of 7.37 carats
- 1 diamond of 8.05 carats
- 1 diamond of 9.83 carats

Source: DMI November 27, 2012 PR

The sale was a combination of gem quality and industrial diamonds. Management considers this to be an accurate representation of what can be expected for a dollar per carat value from material in this lower-grade area in the +1.0mm to -10.0mm size fraction. The dollar per carat value achieved by the sale was 104% higher than the value estimated in the 2009 resource estimate.

We believe that the variety in size distribution is positive for the project as it shows that natural sorting processes have had a minimal effect in the distribution of diamonds within the area. This lack of natural sorting indicates that there is high potential for the size distributions to be similar to those at the source of the material (the Venetia Mine).

Although DMI has successfully completed the first sale 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, and thus, 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 each month (not including the stones selected for purchase by Tiffany & Co). According to the company, approximately 125 buyers from South Africa and around the world attended the tender for the initial sale of rough diamonds. Management expects buyers from China and India to play a stronger role going forward.

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 the company's expectations.

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 projects. Below are brief biographies of the Management & Directors which were 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.

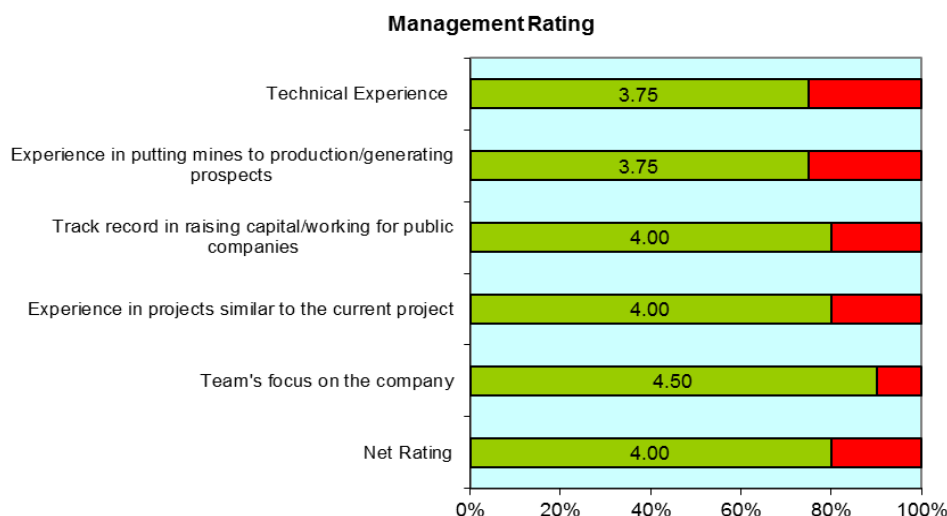
Dr. Haggerty graduated from the Royal School of Mines in Economic Geology in 1964 and received his PhD from the University of London in 1968. This was followed by a three-year post-doctoral Carnegie Fellowship at the Geophysical Laboratory in Washington, D.C., followed by a lengthy tenure at the University 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

Our management rating for Diamcor Mining is 4.0 out of 5.0.



Strength of Board

We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. We verified the company's annual "Management Information Circular" to ensure that the company has an independent Board of Directors, Audit Committee and Compensation Committee.

	Poor	Good	Excellent
Two out of four directors are independent		X	
None of the directors have filed for personal bankruptcy			X
All of the directors hold shares in the company			X
The Audit committee is composed of three board members, two of which are independent		X	
The Compensation committee is composed of three board members, one of which is independent	X		

Outlook on Diamonds

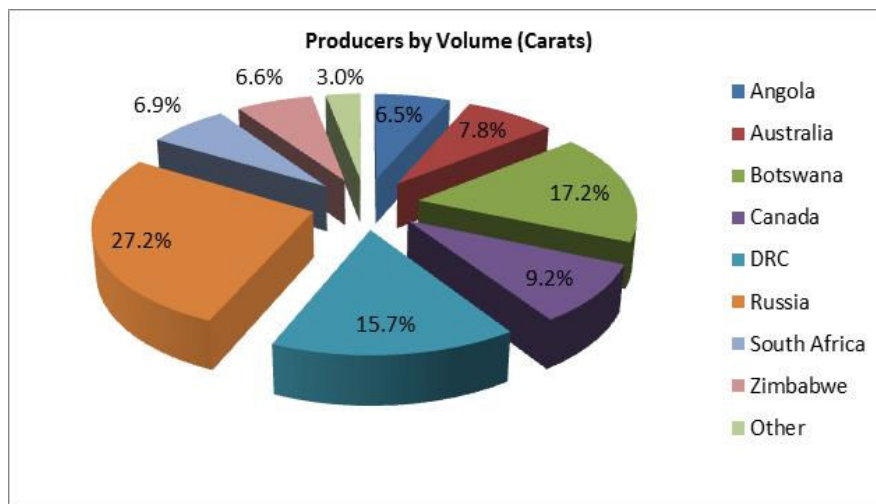
Diamonds can be characterized into two categories depending on their application:

- **Industrial Diamonds** - Diamonds are the hardest known natural substance. This property makes them ideal for industrial processes as well as other properties such as the thermal conductivity and electrical conductance of diamonds. 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

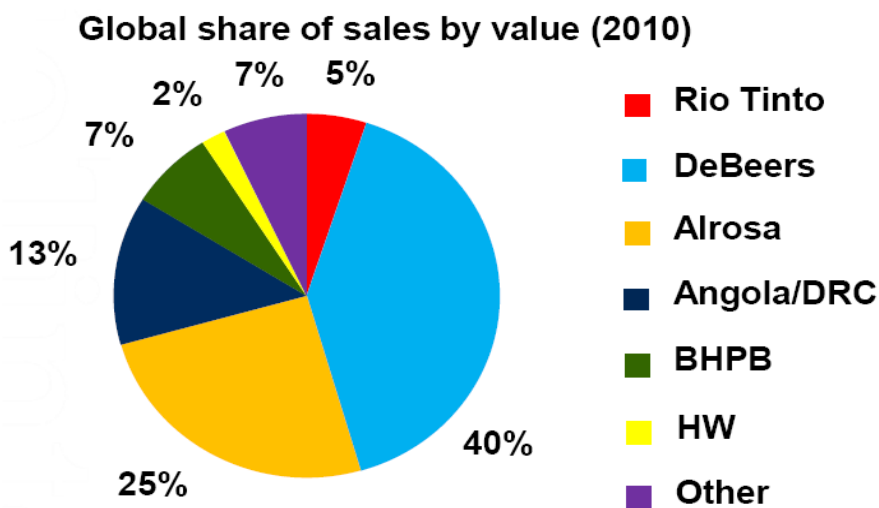
will play a more important role in setting prices of natural diamonds in the long-term.

The following chart shows diamond production by country. Russia, Botswana, and the DRC were the leading producers of diamonds in 2010.



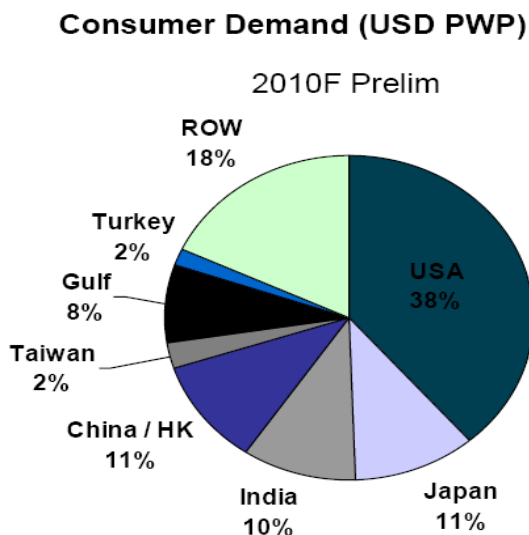
Source: (Kimberly Process, FRC)

De Beers has a dominating position in terms of production by value (as shown in the chart below), where a majority of its revenues are derived from the Jwaneng mine in Botswana. As the below chart illustrates, the **supply of diamonds are largely controlled by a few major companies**, with over 75% of diamond sales controlled by the top three companies. The concentrated market allows these producers to control production and possibly influence prices.



Source: Rio Tinto plc

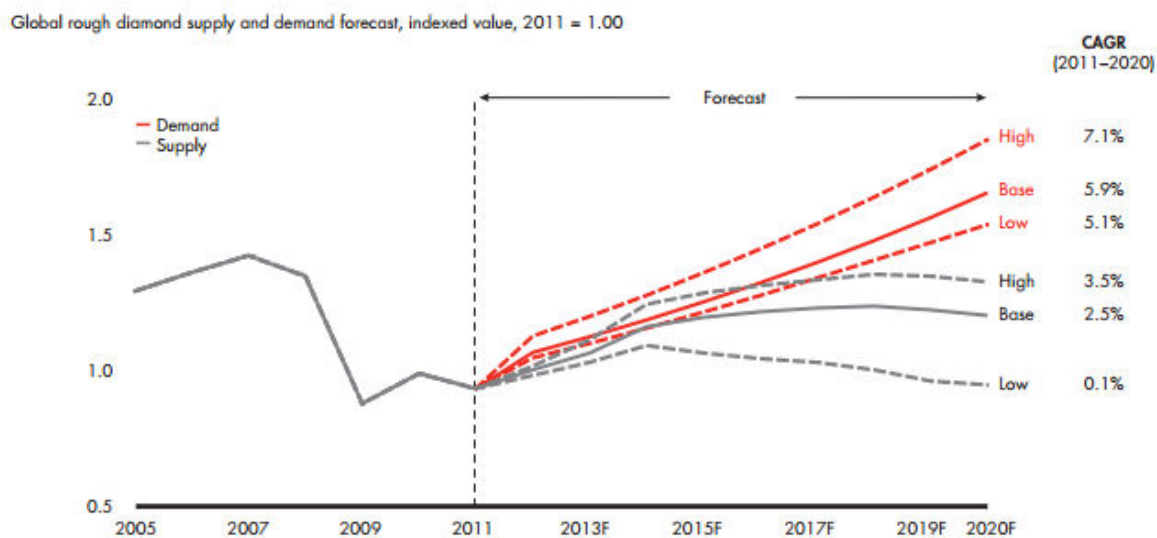
Below is a chart illustrating the demand for diamonds by country.



Source: De Beers

It is believed that China and India will show strong growth with consensus growth rates expected around 15% p.a. while mature markets are expected to grow roughly in line with GDP. De Beers predicts by 2015, China, Honk Kong, Taiwan, India and Gulf will account for nearly 40% of consumer demand (currently 21%).

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 for buying diamonds in China and India is catching on fast. If current trends continue, China and India together are forecasted to account for 50% of incremental growth in the world diamond markets over the next 5 years.

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

At the end of Q2-2013 (six months ending September 30, 2012), the company had \$0.60 million and \$0.08 million in cash and working capital, respectively. In the first six months of FY2013, the company posted a net loss of \$1.92 million (EPS: -\$0.05). The table below shows a summary of the company's cash and liquidity position.

(in C\$)	2012	2013 (6M)
Cash	\$1,747,313	\$595,819
Working Capital	\$1,208,915	\$82,565
Current Ratio	2.01	1.09
LT Debt/Assets	93.30%	117.99%
Burn Rate Per Month (operating and investing)	-\$390,409	-\$394,388
Cash from Financing Activities	\$863,394	\$1,248,639

Long-term Debt: The company had the following debt at the end of September 30, 2012.

- \$6.09 million (principal + accrued interest) in long-term debt at the end of Q2-2013 due to Tiffany & Co. This includes 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). The principal is due as follows:

	Principal
2013-2014	1,156,586
2014-2015	2,095,967
2015-2016	2,247,447

- \$0.94 million due to Nozala Investments – no terms of repayment – interest of 12% p.a. (South African prime + 3%); as mentioned earlier Nozala owns 30% of the Krone-Endora project.

In November 2012, the company announced it has **increased its debt facility with Tiffany and Co. by \$4 million**, which includes \$2.40 million in term debt (interest - 9% p.a., principal + interest repayment deferred until January 2014, payable in 36 equal installments) and \$1.60 million in convertible debt (interest - 9% p.a., principal + interest repayment deferred until January 20, 2014, payable in 36 equal installments, conversion price - \$1.60 per share).

The company currently has \$1.5 - \$2.0 million in cash. We will start reporting our EPS estimates once the company achieves commercial production.

Stock options and warrants: The company currently has nil warrants and 4.30 million stock options outstanding (weighted average exercise price of \$0.34). All of the stock options are in the money – if exercised, the company should be able to raise up to \$1.45 million.

***Valuation and
Rating***

Our revised valuation on DMI is \$2.14 per share versus our previous estimate of \$0.90 per share. The valuation increased primarily because of the following reasons:

- The global supply of rough diamonds was 124 million carats in 2011, valued at US\$15 billion – which implies an average price of US\$120 per carat (Source: Bain & Company). In our previous report in June 2011, we had used a diamond price of US\$135 per carat. Based on our positive outlook on rough diamond prices, an average pricing of US\$143 per carat for the initial sale (which is more than twice the price noted in the NI 43-101 report) – which includes only material from 1 – 10 mm, we believe the company should be able to achieve an average price of US\$175 per carat once 10+mm is added to the product mix.
- Based on our increased confidence in the project, we have increased our production assumption from 1.32 mm carats (over 15 years) to 2.82 mm carats (over 13 years).
- As the company has achieved production, we have lowered our discount rate assumption from 11.5% to 10.0% to account for the decrease in risks associated with the project since our previous report.

A summary of our valuation is shown below.

DCF Valuation Summary	
Recovered Carats	2,818,000
Mine Life (in years)	13
Rough Diamond Price (US\$/carat)	\$175
Discount Rate	10.0%
Net Present Value (70%) - C\$	\$75,095,359
Working Capital - LTD	-\$4,946,973
Fair Value	\$70,148,386
No. of shares (diluted)	32,765,334
Value per share	\$2.14

We reiterate our BUY rating and raise our fair value estimate from \$0.90 to \$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.
- The company may be dependent upon the success of developing an operating and profitable mine, as well as drilling, expansion, and determination of favourable resource estimates.
- 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.

We rate the company's shares a RISK of 5 (Highly 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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