Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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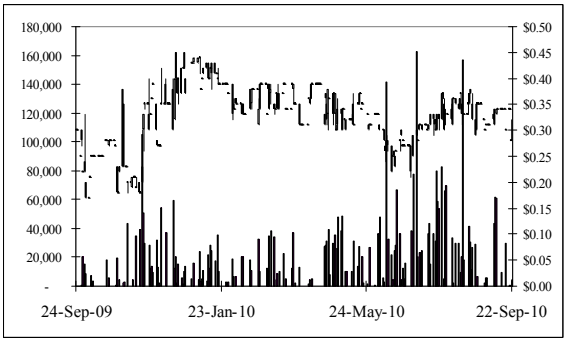
Diamcor Mining Inc. (TSXV: DMI) – Initiating Coverage - Near Term Diamond Production Adjacent to South Africa's Top Diamond Producing Mine; Growth Potential

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

Market Data (as of September 23, 2010)

Current Price	**C$0.28**
Fair Value	**C$0.65**
Rating*	**BUY**
Risk*	**5 (Highly Spec)**
52 Week Range	C$0.17 - C$0.45
Shares O/S	25.62 mm
Market Cap	$7.05 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.38
YoY Return	-8.3%
YoY TSXV	32.1%

*see back of report for rating and risk definitions



Investment Highlights

- Diamcor Mining Inc. is a TSX Venture listed junior mining company with an established operational history which is focused on acquiring quality near-term production based diamond projects. The company is currently focused on developing the Krone-Endora diamond project in northern South Africa which it is acquiring from De Beers Consolidated Mines Limited ("De Beers")
- The Krone-Endora project sits immediately adjacent to De Beers' Venetia Diamond Mine. **Initial** NI43-101 compliant inferred resources at Krone-Endora stand at **54.26 million tonnes of diamond bearing gravels containing an estimated 1.31 carats of diamonds with growth potential.**
- The company has proven operational and diamond processing experience from previous South African diamond operations.
- The company plans to commence trial mining at Krone-Endora by Q4 of 2010.
- The company is targeting 15,000 carats per month within 12 months and a production rate of 500,000 carats per annum within 36 months.

Risks

- The company currently has no operating mines.
- 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.

Key Financial Data (FYE - March 31)	
(C $)	**2011 (3 Mo)**
Cash	2,522,906
Working Capital	1,871,932
Net Property, Plant and Equipment	63,481
Total Assets	2,929,783
Net Income	(1,097,637)
EPS	(0.05)

Diamcor Mining Inc. is proceeding with the impending acquisition of the Krone-Endora diamond project from De Beers. The project has initial resources of 54.26 million tonnes of diamond bearing gravels containing an estimated 1.31 million carats of diamonds. The company is planning to commence with recommended extended drilling and trial mining in Q4 of 2010, with a target of achieving a production rate of 15,000 carats per month within 12 months of operations.

Company Overview

Diamcor Mining Inc. is a TSX Venture listed mining company with an established operational history in South Africa, which is now focused on the development of the Krone-Endora diamond project in South Africa. The company's strategy is to be a supplier of rough diamonds to the global market.

In 2008, the company signed an asset purchase agreement with De Beers to acquire the Krone-Endora project through its 70% owned subsidiary DMI Minerals South Africa (Pty) Limited ("DMI Minerals"). The remaining 30% interest in DMI Minerals South Africa is held by Nozala Investments (Pty) Ltd. ("Nozala"), a well-established South African Black Economic Empowerment company.

The company recently received Ministerial Consent from the South African Department of Mineral Resources for the transfer of the associated Krone-Endora rights from De Beers to DMI Minerals, resulting in the transfer of rights to DMI Minerals as of August 30, 2010. **The company is awaiting the impending closure of the transaction at which point it plans to immediately proceed with the NI 43-101 report recommended drilling and trial mining programs.**

The project, which sits immediately adjacent to South Africa's largest producing diamond mine, the Venetia Mine, currently has an initial 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.** The project has excellent access and will be mined by simple low-cost strip mining methods anticipated to begin in Q4 of 2010.

Management has past operational experience in the diamond industry through the company's So Ver diamond tailings reprocessing project which operated for seven years, and was completed in 2006. The So Ver project is also located in South Africa and discussion with management indicates that much of the processing and related infrastructure from that operation will be similar and, where possible, utilized at Krone-Endora.

Corporate Structure

The company's current and past operations also provide the company with strong relationships with various industry suppliers, technical groups, majors such De Beers and an intimate knowledge of the government policies and permitting procedures.

Source: Company

In addition to Krone-Endora, the company holds the mining and prospecting rights to the So Ver property and prospecting rights to the Hardcastle 366 property, both in South Africa. Expenditures on these properties are currently being minimized to focus on the development of Krone-Endora.

Krone Endora

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 is acquiring the properties which comprise the Krone-Endora project. On September 7, 2010, the company announced that it had received regulatory notice from the South African Department of Minerals and Energy that it may proceed with finalizing ownership transfer of the project from De Beers. The company and De Beers are now in the final stages of closing the definitive agreement signed in December, 2008.

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 currently defined resource is from surface to a shallow depth of approximately 15 meters and should be exploitable by simple and low-cost strip mining. Due largely to the adjacent Venetia mine, the area has well established infrastructure capable of handling a full-scale mining operation.

Once the transfer of ownership is complete, the company will immediately move to trial mining of the current resource while also completing additional drilling throughout the property. The company is targeting initial production of +/- 15,000 carats per month for the first 12 months.

Ownership: The project will be held by the company's subsidiary DMI Minerals, of which Diamcor holds 70% ownership. 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 R1.5 million (approximately $0.208 million) at the time of the agreement and is required to make a final payment of R12.5 million (approximately $ 1.8 million) upon final closing of the deal. We believe that **Diamcor was able to acquire the Krone-Endora project from De Beers at a significant discount (based on our valuation and cash flow projections on the project presented later in this report).** We believe this is largely because an eluvial diamond project such as Krone-Endora is outside of De Beer's core business focus which historically has been on primary kimberlite projects.

The company recently received notice that regulatory approval and transfer of the rights for Krone-Endora has been granted by the South African Department of Mineral Resources. This is probably the most significant milestone in closing the transaction.

The original agreement (signed in 2008) was to include the whole Endora 66MS property prospecting right but only a portion of the Krone 104MS property prospecting right. The agreement excluded an area of approximately 400 hectares of the Krone property which was within the current fence-line of the Venetian mine. That agreement was subsequently amended on March 31, 2010, to include the entire Krone 104MS property prospecting right with no other material changes.

Location/Accessibility/Infrastructure: The project is located approximately 500 kilometres north-northeast of Johannesburg, South Africa. The closest town to the project is Alldays, approximately 33 km south of the project. Musina, a modern town with mining support services and a regional airport, is located 107 km east of the project.

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 is by well maintained roads and the arid climate should have little or no effect on a mining operation. **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.**

History: The first notable exploration programs completed on the Krone-Endora deposit were completed in the 1980's by De Beers. These programs included a limited large diameter drilling program in 1986 followed by a comprehensive large diameter auger program in 1995. A bulk sampling program was undertaken in 2004 in which three sample pits were completed leading to De Beer's completing an internal Mineral Deposit Estimate Report. The extensive volume of data gathered was utilized by Mr. J.F. Grobbelaar [Pr.Sci.Nat] MGSSA in his NI 43-101 compliant technical report and resource estimate completed for Diamcor in 2009.

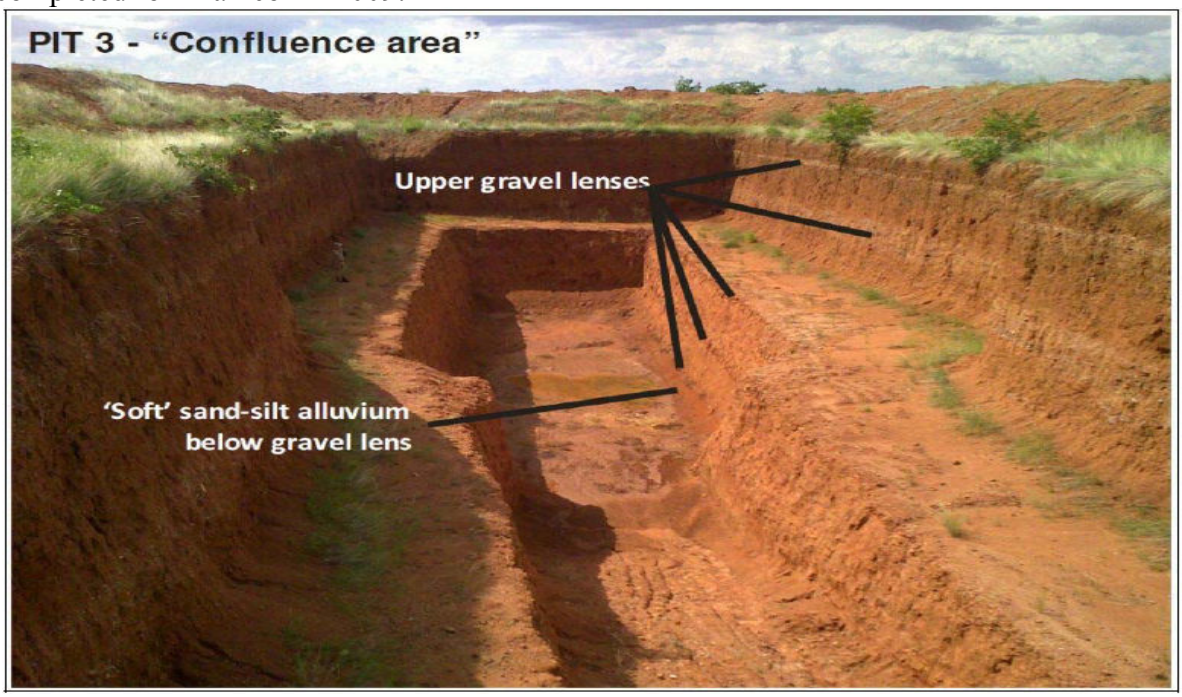


Figure 1: Sample Pit 3 from De Beers 2004 exploration program. (Source: Company)

Geology and Mineralization: The Krone and Endora farms are situated adjacent to Venetia mine owned and operated by De Beers. The Venetia mine, which produces diamonds from the Venetia kimberlite pipe cluster, 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 temperature and pressure conditions are met. The association between kimberlite pipes and diamonds results from kimberlite pipes acting as conduits by which diamonds travel from depth to or near the crustal surface where they can be mined.

Kimberlites and Diamonds

Kimberlite deposits form through the rapid eruption of highly volatile magma of largely 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 essentially preformed rock fragments that become enveloped in a larger rock (originally as magma); in the case of diamonds, they are xenoliths which have been trapped in the kimberlite magma as it migrates upwards to the earth's surface.

Figure 2 below 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 kimberlite is critical to the Diamcor deposit as it is the interpreted source of diamonds on the property.**

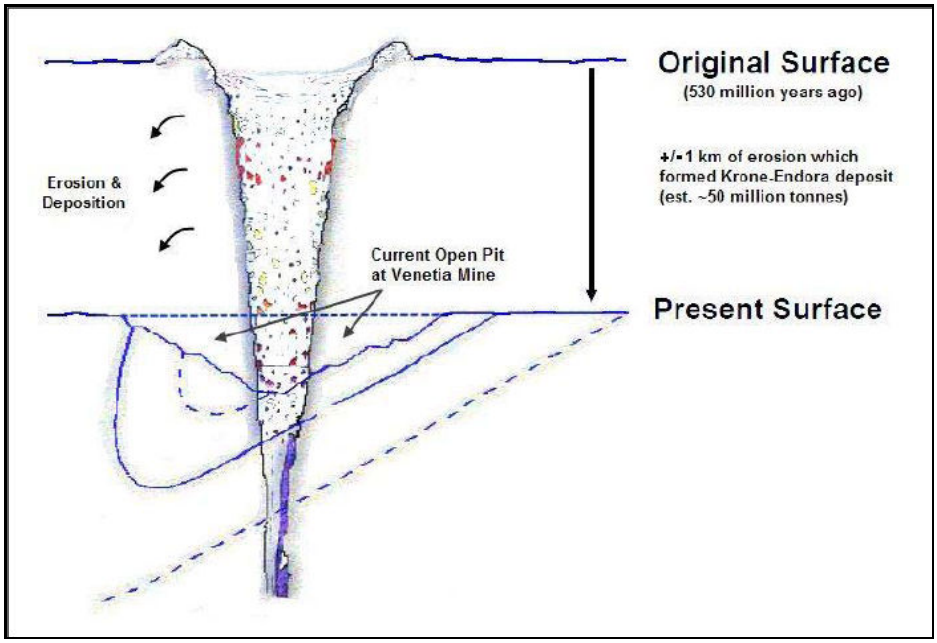


Figure 2: Interpreted cross section of the original kimberlite pipe at the Venetia Mine. The eroded portion is proposed to be the source of diamond bearing gravels on the company's property. (Source: De Beers & Company NI43-101)

Figure 3 shows the relative location of the Venetia mine and associated kimberlite pipes as related to the company's Krone and Endora farms. 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 materials 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 area covered by the company's current initial NI43-101 resource estimate and related technical report is also highlighted below in Figure 3.

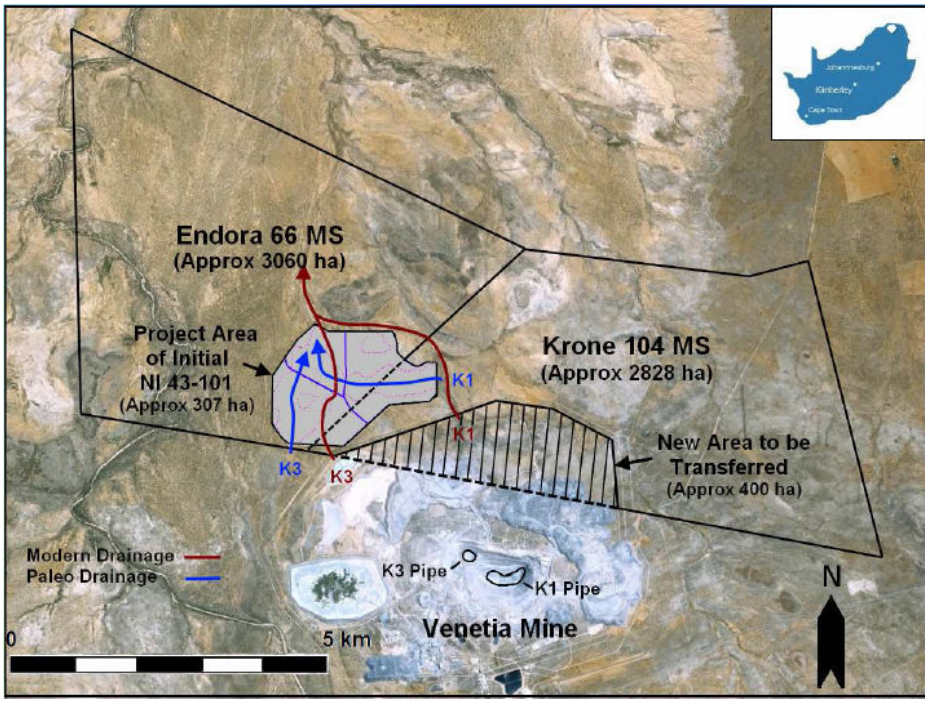


Figure 3: The Endora and Krone prospecting licenses and adjacent Venetia Mine. (Source: Company)

Whether transported by alluvial or eluvial forces, the source material has not traveled a particularly long distance and as a result, larger diamonds would be expected to appear in more pristine condition. Smaller grains that would normally be destroyed during long distance transport by alluvial forces will also be more prevalent. **Independent reports quote that 85% of diamonds recovered from the Venetia mine are of gem quality; the company expects similar diamond size, frequency and quality within the Krone-Endora deposit. We believe this is a reasonable assumption that greatly improves the project's viability to host an economic deposit.**

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 four metres while the upper unit has a maximum thickness of 12 metres.

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 above in Figure 3 and pertains only to areas of the project for which exploration work has been completed by the company or De Beers to date.

The resource, which is the subject of the current initial NI43-101 report, is divided into three zones K1 and K3, and the Confluence zones based on the associated paleo-drainage that formed the zones, and the associated originating sources of the K1 and K3 kimberlite pipes of the Venetia mine. These zones are subdivided into the basal and upper gravel units previously discussed.

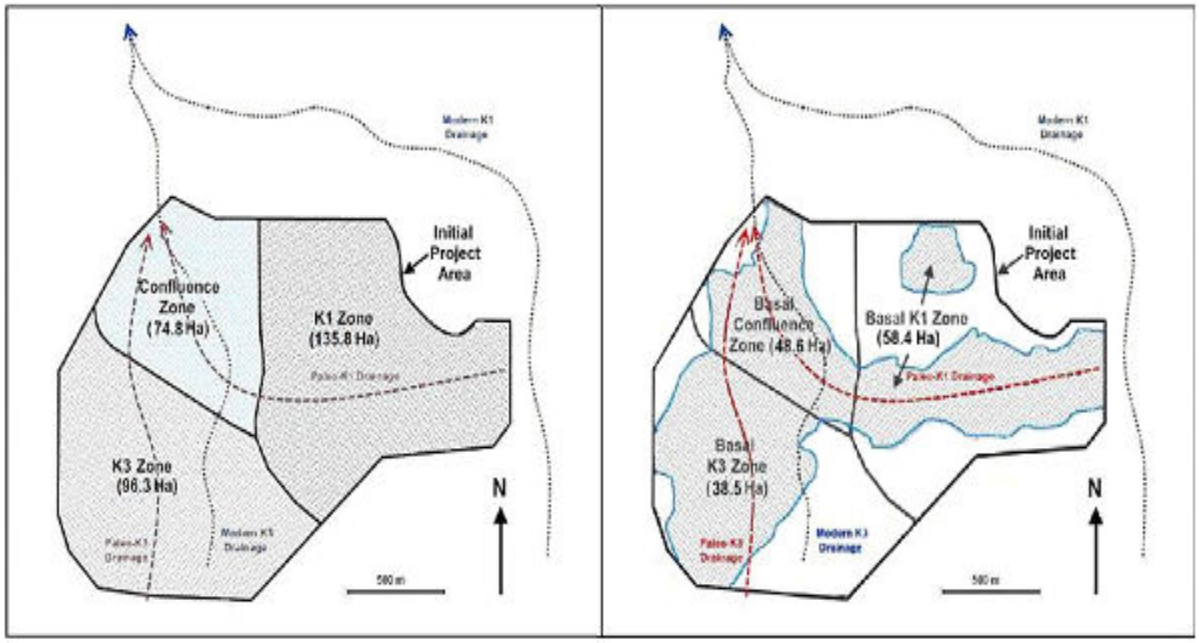


Figure 4: Paleo Drainage is represented by dashed arrows, modern drainage by dotted arrows. (Source: Company NI43-101)

Development Timeline: As we previously noted, Ministerial Consent and transfer of the rights for Krone-Endora has now been granted. The company will now proceed with recommendations from the recently completed initial independent NI 43-101 technical report. Immediate work includes taking the project to a trial mining stage and completing additional property wide drilling. Drilling will be completed in areas of the property outside of the current resource area because there is still potential to find additional diamond hosting gravels, particularly up stream of the K1 paleo drainage. A revised NI 43-101 technical report including a revised resource estimate is expected in Q1 of 2011.

The company plans on ramping up trial-mining volumes, and is targeting an initial processing rate of 100,000 tonnes per month with an aim to recover approximately 15,000 carats per month within 12 month of operations commencing. The company's longer term production goal is to reach 500,000 carats per annum within 36 months of operations through the potential expansion of the Krone-Endora and/or through the acquisition of

additional near-term production based tailings or alluvial/eluvial projects. **Based on the tonnage of the current NI 43-101 report, and the additional areas of interest yet unaccounted for, the company projects that potential cash flow for approximately 12+ years is possible.**

Below are management's projected revenue assumptions for the Krone-Endora project, which are based on initial production targets over the first 12 and 36 months from the start of initial production on a 100% interest basis (DMI will hold 70% interest) which management is currently using for planning purposes. Projections are based on management's operational experience and knowledge of historical costs as well as information from the NI43-101 report. The reference to two projected revenues, one incorporating large stones and one incorporating less large stones, is due to the assumption that large stones have not been represented in gravels due to the relatively small sampling size completed to date. Mining at the Venetia Mine has shown large stones to be present and the company expects the size and frequency distribution to closely mirror those of the Venetia mine where 5% of stones would be larger than two (2) carats and 1% larger than eight (8) carats. Management cautions that there can be no assurance that these assumptions will remain constant or will prove to be consistent with actual operating results.

The following chart indicates that management expects US$9 - US$10 million (US$7 - US$8 million excluding large stones) in revenues in the first 12 months (trial mining) of operation.

Source: Company

The company expects annual revenues of US$18 - US$20 million (US$15 million excluding large stones) in revenues in the first 36 months of production (post trial mining) - as shown in the following chart. Trial mining is projected to begin in January

2011, with production projected to begin in January 2012.

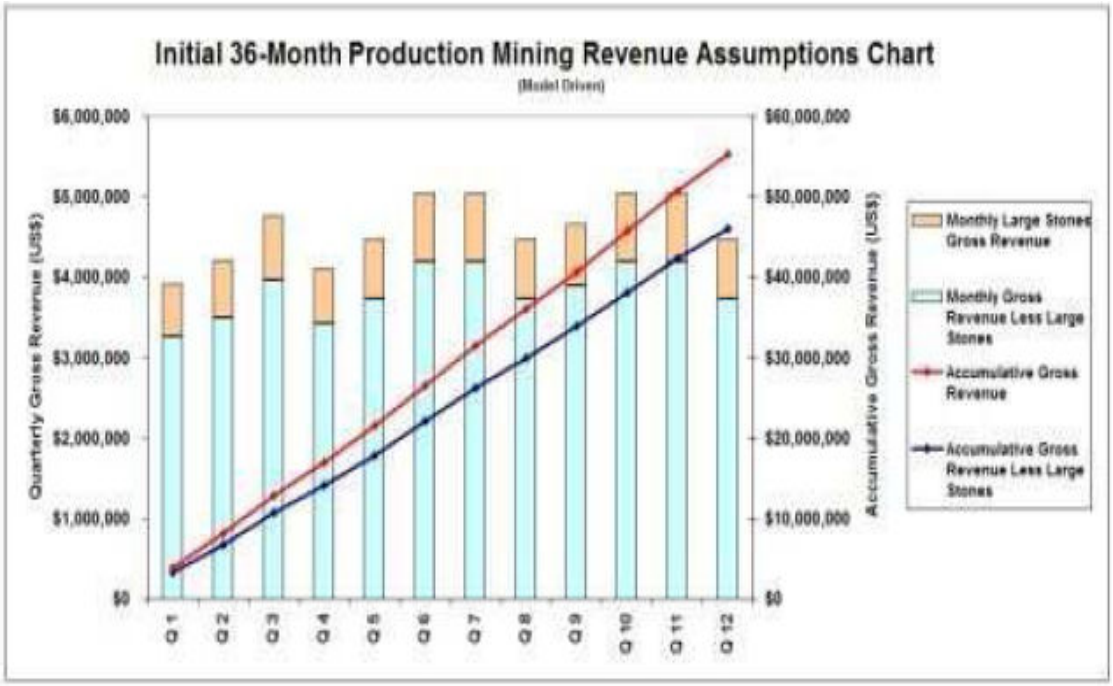


Figure 5: 36 month projected production mining revenues (Source: Company)

The preliminary plant design utilizes a simple pan plant system for gravel processing that is followed by a traditional two-stage final recovery using X-ray flow sort technology and secondary grease belt systems. The company has operational experience with these types of systems from past production at the company's former So Ver operation.

Management

Mr. 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.

Mr. 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.

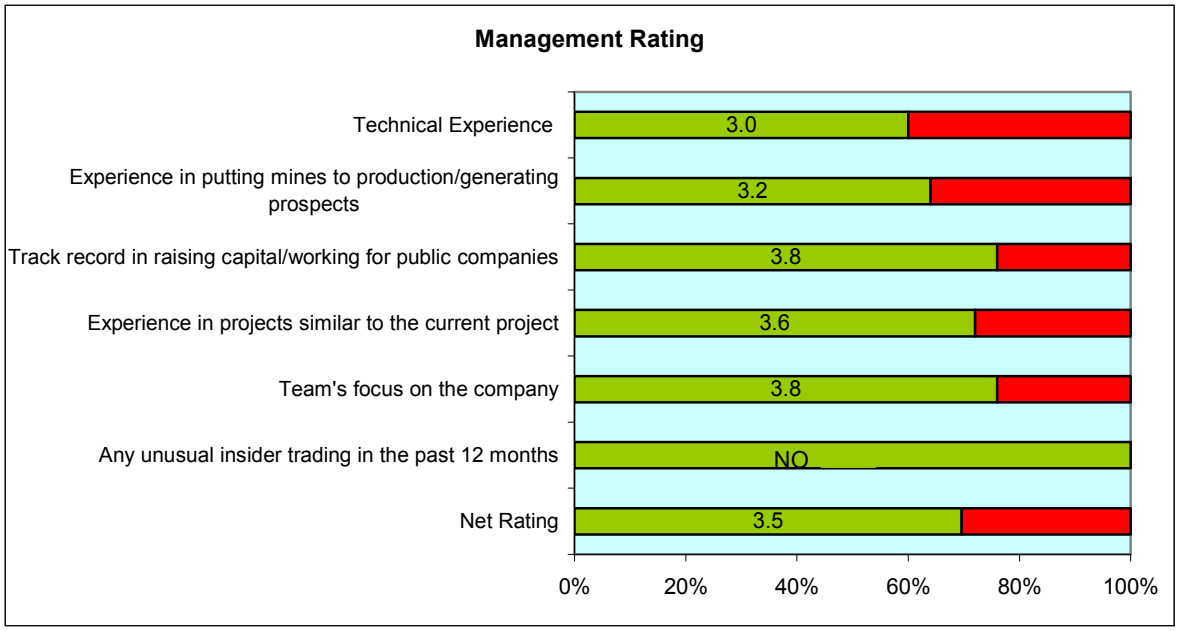
Mr. Sheldon B. Nelson - Director - Mr. Nelson is based in New York City and has served as President, Chief Executive Officer and Chairman of the Board of MDU Communications International, Inc., a United States publicly traded corporation since its start-up inception in 1998. MDU is a leading provider 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.

Darren Vucurevich B. Mgt. CMA - Director - 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 managing various other successful companies.

Mr. Jim Hawkins B.Sc., P.Geoph. - Exploration Manager - 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 believe that one of the most important aspects of a junior mining company is its management. Therefore, we have developed a management rating system as a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and management's time commitment to the company. We also analyzed trading records to identify for evidence of unusual trading by management. **Our net rating for Diamcor Mining (see below) is 3.5 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
Three 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, all of which are independent			X
The Compensation committee is composed of two board members, both of which are independent			X

Outlook on Diamonds

Diamonds are basically categorized into two types depending on their application.

- **Industrial Diamond -** Diamond is the hardest known natural substance. This property makes them useful for industrial processes as a cutting tool. 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, machinery manufacturing, drilling of minerals, oil and gas, 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 jewellery.

The following chart show diamond production by country. Botswana, Russia and South Africa are the top three producers.

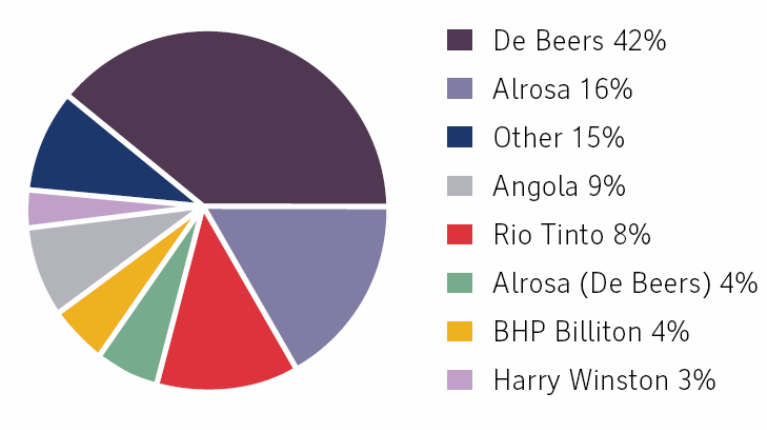
Production by Country (2006)

Country	Value (US$mm)	Value (%)
Botswana	3,240	24.6%
Russia	2,300	17.5%
South Africa	1,566	11.9%
Angola	1,441	10.9%
Canada	1,310	9.9%
DR Congo	1,000	7.6%
Namibia	1,008	7.6%
Australia	510	3.9%
Other	800	6.1%
TOTAL	**13,175**	**100%**

Source: BMO Capital Markets

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.

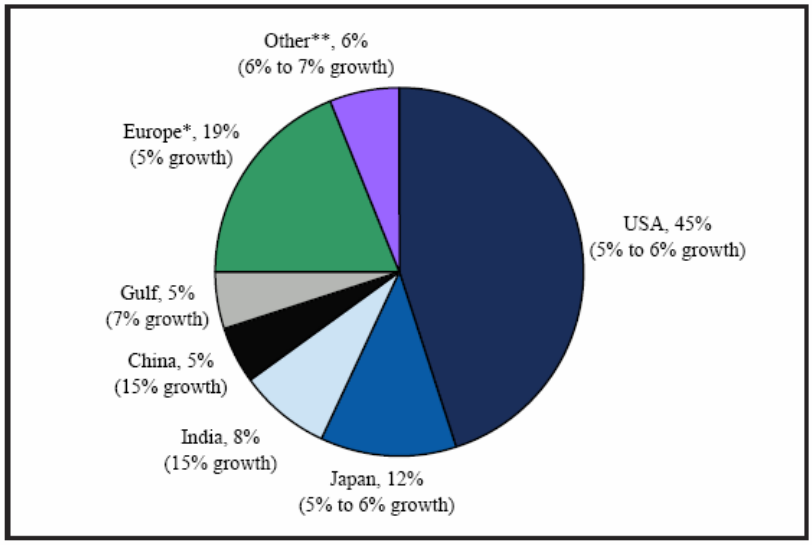
Production by Major and Intermediate Mining Group by Value (2007)



Source: Rio Tinto plc

About 80% of the diamonds that are mined are used for industrial purposes. However, the value of diamonds for jewellery significantly exceeds the value of diamonds used in industrial purposes. One of the major challenges to the use of diamonds in industrial processes is the usage of synthetic man-made diamonds. Synthetic diamonds are superior to natural diamonds because it can be produced in unlimited quantities, and its quality and properties can be controlled for specific applications. At least 15 countries have the technology to produce synthetic diamonds. According to the US Geological Survey, 99% of diamonds used for industrial processes are synthetic. In terms of global usage, synthetic diamonds meet 88% of the demand for diamonds for industrial processes. Therefore, we believe that the supply and demand fundamentals of diamonds for jewellery will play a more important role in setting prices of natural diamonds in the long-term. We do not believe that synthetic diamonds will replace natural diamonds used in jewellery. The chart below shows the geographical demand for diamonds in jewellery.

Retail Demand by Country (2006) and Expected Growth

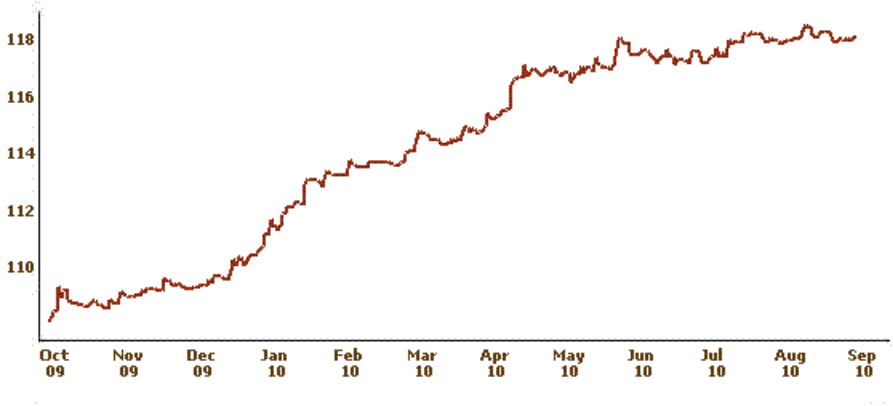


Source: BMO Capital Markets

Europe, USA, and Japan contributed to about 76% of world demand for gem-grade diamond jewellery. We believe near-term GDP growth from these areas will be weak; which could keep the demand for diamonds soft in the near-term. **However, we expect demand of diamond jewellery to outpace supply of natural diamond production in the long term.** This is because no new deposits of significance have been found since the discoveries of the Ekati and Diavik mines in Canada, and major producing mines, such as Jwaneng, Orapa and Diavik, are reaching their open-pit mine lives and soon will be transitioning to underground operations. In addition, we believe that increasing disposable incomes in the developing economies of China, India, and the Middle East will increase demand for diamond jewellery going forward.

Pricing – The chart below shows the Diamond Prices Index (DPI) since October 2009, which is a representation of the current trend in diamond prices. . The index has recovered from its lows in 2009, but it is still lower than the high of 124 in 2008. Overall, we expect the price index to stabilize at the current levels.

Diamond Prices Index



Source: International Diamond Exchange

Pricing of gem-grade diamonds varies widely depending on the cut, size, color, and clarity of the stone. Our models use a rough diamond price forecast of US$100/carat which was based on pricing information from the Venetia mine, industry research and our discussions with management.

Financials

At the end of June 30, 2010, the company had $2.52 million in cash. Working capital was $1.87 million. The company posted a net loss of $1.10 million (EPS: -$0.05) in the first three months of FY2011 (ended March 2010). We estimate the company had a burn rate (cash spent on operating activities) of $0.11 million per month during the first three months of FY2011. The table below shows a summary of the company's cash and liquidity position at the end of June 2010.

(in C$)	2011 (3 Mo)
Cash	$2,522,906
Working Capital	$1,871,932
Current Ratio	3.50
LT Debts/Assets	0.10%
Burn Rate Per Month	$106,923
Cash from financing activities	$948,753

We believe the company has sufficient capital to fund its operation in the next 12 months based on its current cash position.

Stock options and warrants: The company had 9.30 million warrants (weighted average exercise price of $0.50) and 3.67 million stock options (weighted average exercise price of $0.35) outstanding as of June 2010. None of the options and warrants are currently in the money .

Valuation

Our Discounted Cash Flow valuation gave a fair value estimate of $0.65 per share. A summary of our valuation model is shown below:

DCF Valuation Summary	
Resource (in tonnes)	54,257,000
Weighted Average Grade (carats per hundred tonnes)	2.42 (average in the first 3 years: 7.83)
Contained Carats	1,315,164
Production Commencement	2011
Mill Processing (tpy)	2011: 0.90 mm; 2012-14: 2.30 mm; 2015+: 4.6 mm
Mine Life (in years)	15
Rough Diamond Price (US$/carat)	$100
Weighted Average Operating Cost (US$/carat)	$44.8
Initial Capital Costs (US$) - to take the project to full production	$3,000,000
Discount Rate	11.5%
Net Present Value (70%) - C$	**$14,258,155**
Working Capital	$1,658,086
Fair Value	$15,916,241
No. of shares (diluted)	24,556,147
Value per share	**$0.65**

Rating **Based on our review of the company, and our valuation, we initiate coverage on DMI with a BUY rating and a fair value of $0.65 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 company currently has no operating mines.
- 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.

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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The distribution of FRC's ratings are as follows: BUY (75%), HOLD (8%), SELL (4%), SUSPEND (13%).
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