Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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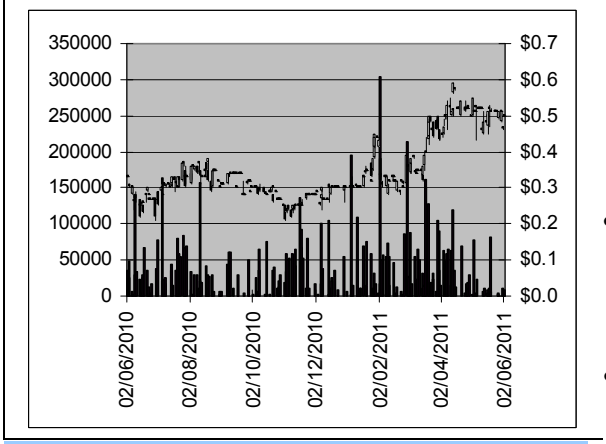
Diamcor Mining Inc. (TSXV: DMI) – Near Term Diamond Production Adjacent to South Africa's Top Producing Mine – Strategic Alliance with New York's Tiffany & Co.

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

Market Data (as of June 3, 2011)

Current Price	**C$0.50**
Fair Value	**C$0.90 (↑)**
Rating*	**BUY**
Risk*	**5 (Highly Spec)**
52 Week Range	C$0.21 - C$0.59
Shares O/S	25.64 mm
Market Cap	$12.82 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	7.60
YoY Return	51.5%
YoY TSXV	38.6%

*see back of report for rating and risk definitions



Key Financial Data (Q3 Ending Dec. 31 2010)

(C $)	2011 (9 mos)
Cash	598,374
Working Capital	(55,768)
Net Property, Plant and Equipment	52,530
Total Assets	2,933,162
Net Income	(1,492,628)
EPS	(0.06)

Investment Highlights

- Diamcor Mining Inc., a TSX Venture listed junior mining company with an established operational history, 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 acquired 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 million carats of diamonds with growth potential.**
- **The company recently established a long-term strategic alliance with Tiffany & Co (NYSE: TIF). The alliance includes financing to expedite the Krone-Endora project ($5.5 million financing).** We believe this is a major vote of confidence as Tiffany & Co. has completed their due diligence, provided financing and established a strategic alliance with Diamcor providing a channel for rough diamond sales. Through the alliance, Tiffany & Co. receives first right of refusal to purchase up to 100% of all future production from the Krone-Endora at prices adjusted from time-to-time to reflect market conditions.
- Drilling started in May at Krone-Endora. The company plans to conduct a bulk sampling program in Q3 2011, and trial mining will follow the completion of the bulk sampling program. Drilling and bulk sampling will be used to support an updated NI 43-101 resource estimate expected in Q4 2011.
- The company has proven operational and diamond processing experience from previous South African diamond operations.

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.

Diamcor Mining Inc. recently completed the 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. A new phase of drilling commenced on May 17, 2011. The company has also established a long term strategic alliance with Tiffany & Co.

Company Overview

Diamcor Mining Inc., a TSX Venture listed mining company with an established operational history in South Africa, 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 February 2011, Diamcor closed the acquisition of 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 (BEE) company. **The Krone-Endora project is located directly adjacent to the De Beers Venetia diamond mine, which is the third largest diamond mine in the world and South Africa's largest diamond producer.**

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 resource estimate of **54.26 million tonnes of diamond bearing gravels containing an estimated 1.31 million carats of diamonds.** Drilling and bulk sampling will be used to support an updated NI 43-101 resource estimate in the coming months. The project has excellent access and will be mined by simple low-cost strip mining methods. Trial mining is anticipated to begin in Q4 of 2011.

Management has past operational experience in the diamond industry through the company's So Ver diamond tailings reprocessing project which operated for seven years on a continuous basis (24 hours a day, 7 days a week), and was completed in 2006. The So Ver project is also located in South Africa and discussions with management indicate that much of the processing and related infrastructure from that operation will be similar and, where possible, utilized at Krone-Endora. 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 government policies and permitting procedures.

Corporate Structure

The parent company, Diamcor Mining Inc., has four South African subsidiaries as displayed in the chart below.

Figure 1 : Corporate Structure

Brief description of the subsidiaries, as provided by the company, follow:

- ***DMI Diamonds South Africa (Pty) Ltd*** *is Diamcor's 100% owned subsidiary which acts as the primary corporate arm of Diamcor in South Africa. DMI Diamonds oversees all South African projects, and performs ongoing evaluations and initial due diligence exploration efforts on potential acquisitions of future projects. DMI Diamonds also provides interest bearing loans to other subsidiaries, such as DMI Minerals (for Krone-Endora), So Ver, Jagersfontein Diamond Mining Co., Etc. DMI Diamonds also purchases assets such as production equipment which it then leases to other projects as needed..*

- ***DMI Minerals South Africa (Pty) Ltd*** *is Diamcor's 70% owned subsidiary, which was used to acquire the Krone-Endora from De Beers in conjunction with Diamcor's BEE partner, Nozala Investments (Pty) Ltd.*

- ***So Ver Mine (Pty) Ltd*** *is Diamcor'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 finalizing the sale of So Ver and the remaining lands assets of So Ver. The finalization of this transaction is expected to be forthcoming and no further expenses associated with So Ver operations are being incurred.*

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

Krone Endora at Venetia - Overview

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 properties which comprise the Krone-Endora project. The Krone-Endora project is both an Eluvial and Alluvial diamond project which was determined to be outside of De Beer's core focus which historically, has been focused on large primary kimberlite projects. **The acquisition of the Krone-Endora project from De Beers was completed on February 28, 2011. On March 29, 2011, Diamcor signed a long-term strategic alliance, and a $5.5 million financing, with world famous luxury jewellery retailer Tiffany & Co.** Tiffany & Co has a first right of refusal to purchase up to 100% of all future production from the Krone-Endora at Venetia project at prices adjusted from time-to-time to reflect market conditions.

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.

Site preparation at the Krone-Endora project has been completed and drilling commenced

May 17, 2011. The company plans to conduct a bulk sampling program in Q3 2011, and trial mining will follow the completion of the bulk sample program. Drilling and bulk sampling will be used to support an updated NI 43-101 resource estimate expected in Q4 2011.

Ownership: The project is 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 De Beers R14 million (approximately US$2 million) to acquire this 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.

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.

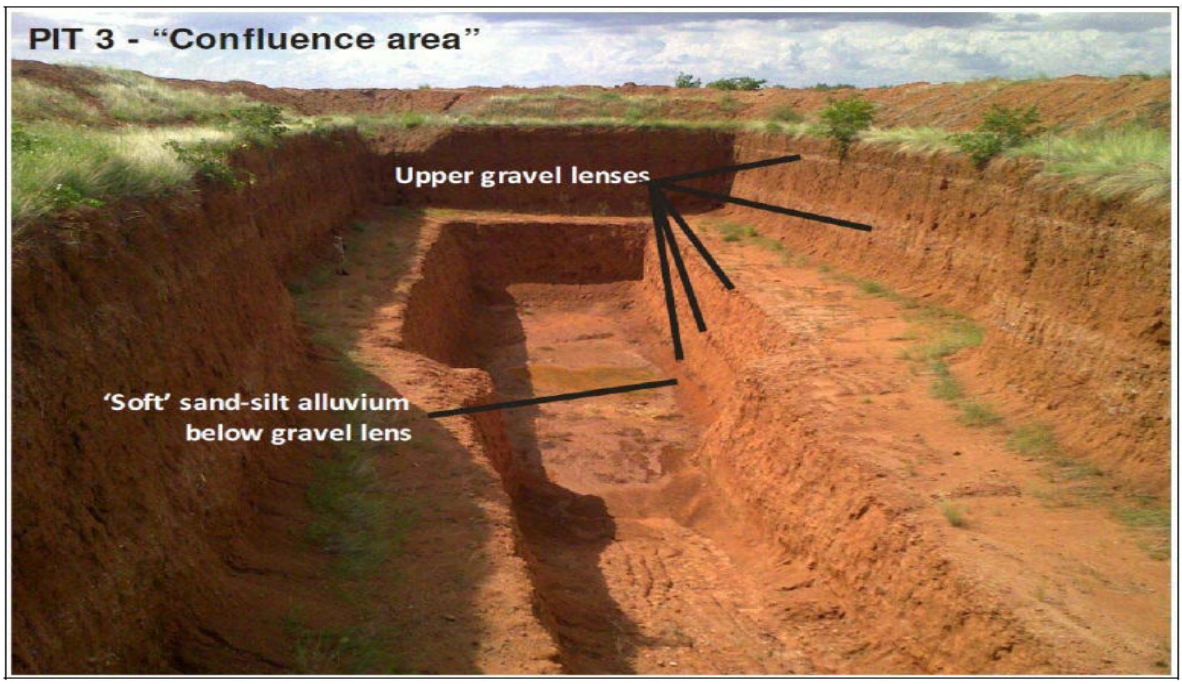


Figure 2: Sample Pit 3 from De Beers 2004 exploration program (Source: Company)

Geology and Mineralization: The Krone and Endora farms are situated adjacent to the 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.**

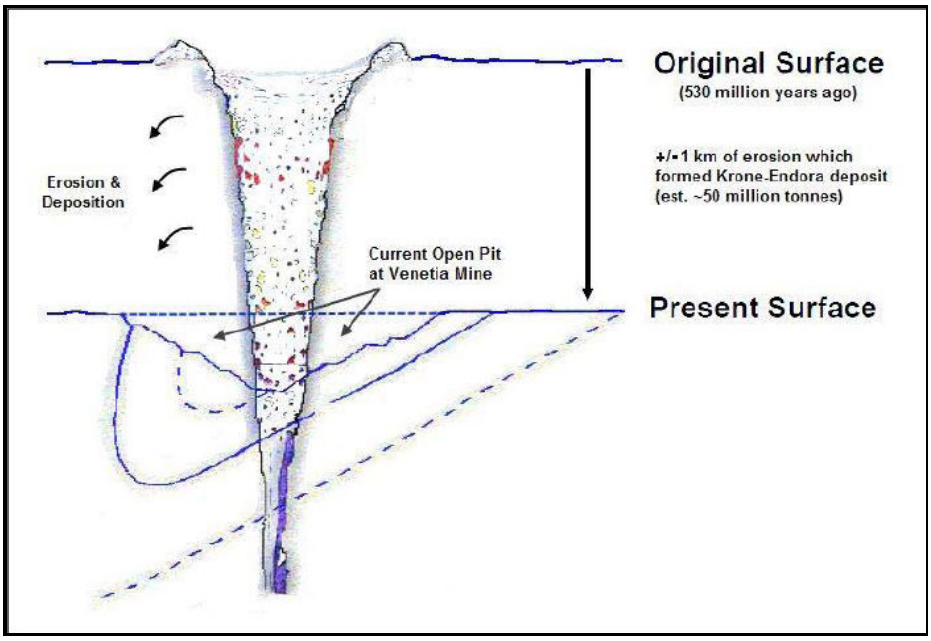


Figure 3: Interpreted cross section of the original kimberlite pipe at the Venetia Mine. The eroded portion is proposed to be the source of diamond bearing gravels on the company's property. (Source: De Beers & Company NI43-101)

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.

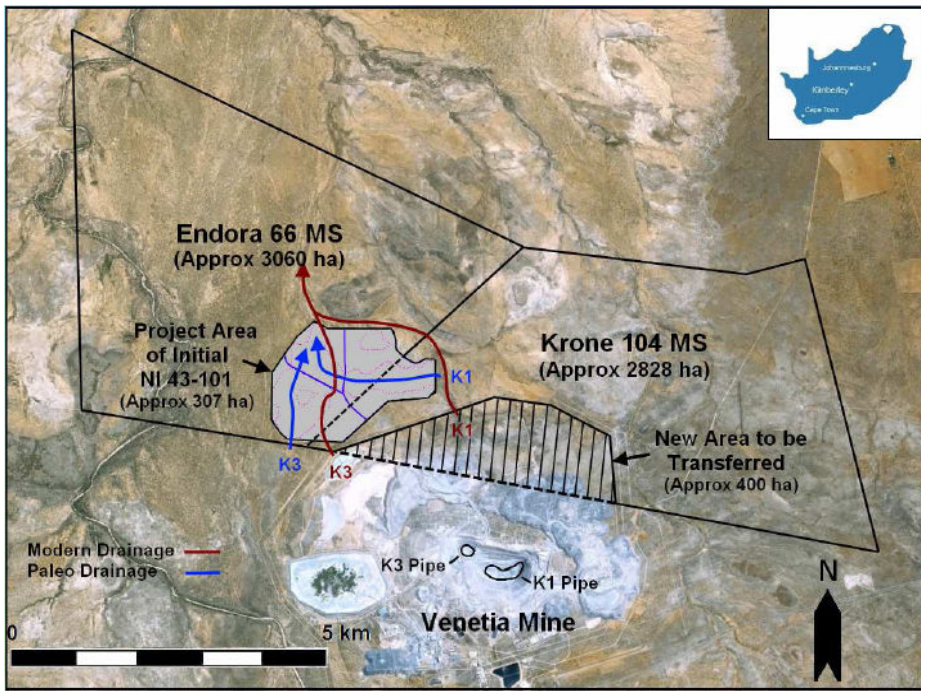


Figure 4: The Endora and Krone prospecting licenses and adjacent Venetia Mine. (Source: Company)

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.

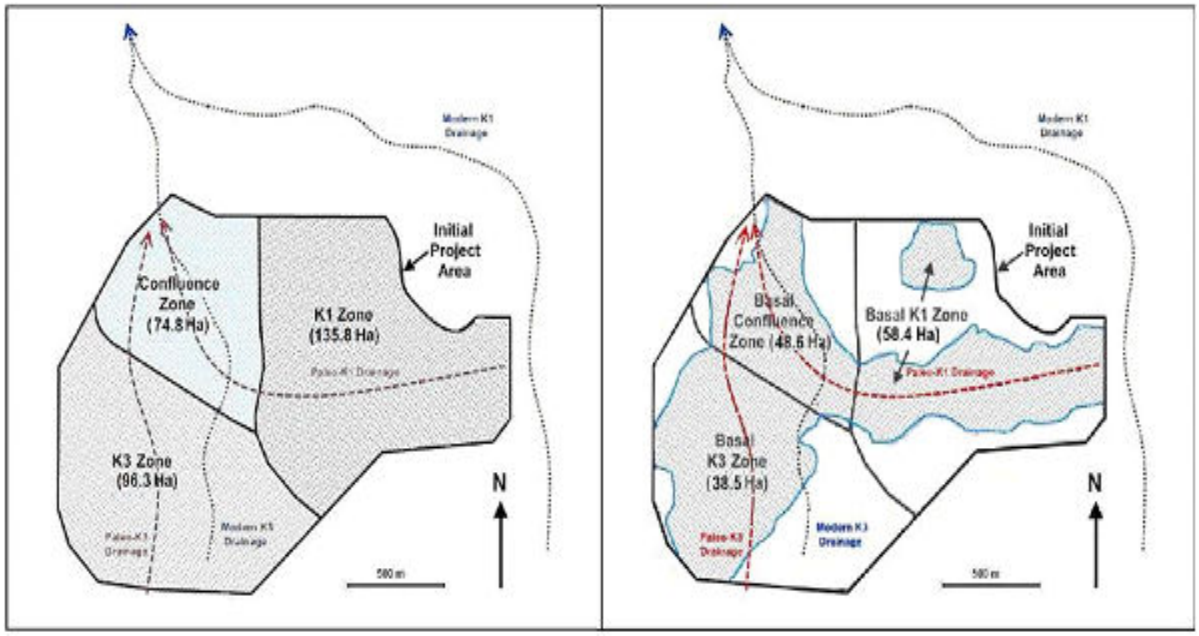


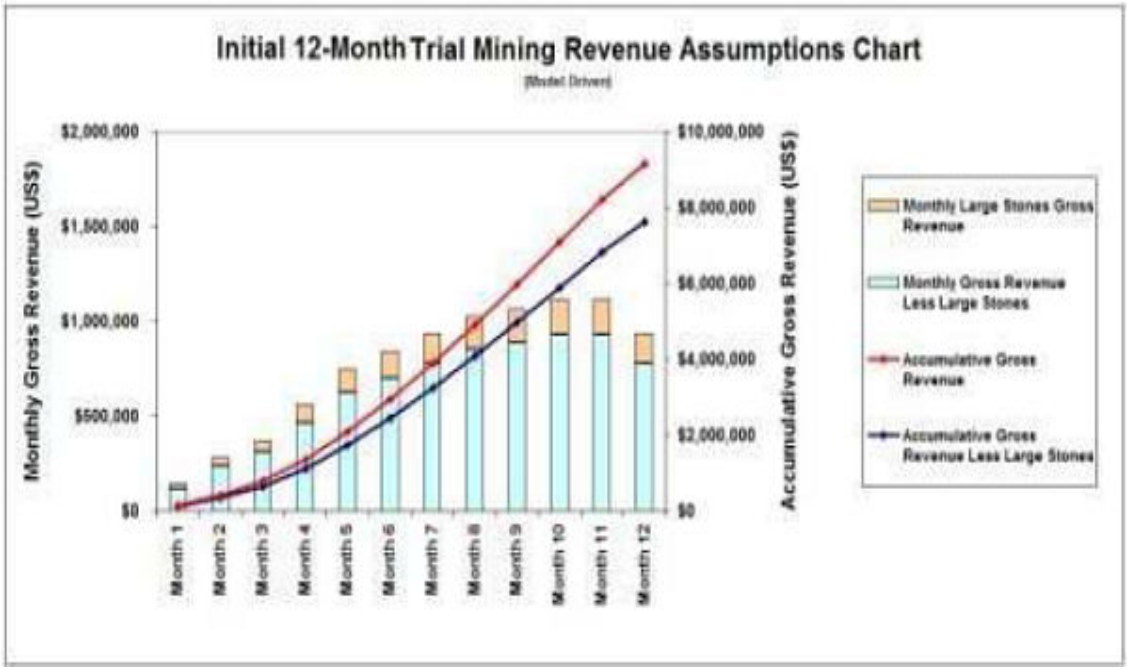
Figure 5: Paleo Drainage is represented by dashed arrows, modern drainage by dotted arrows. (Source: Company NI43-101)

Development Timeline: Site preparation at the Krone-Endora project has been completed and **drilling commenced on May 17, 2011**. The drilling program (about 400 near surface RC holes - to be drilled in three phases) is **designed to define current resources and identify new resources in unexplored areas.**

The company plans to conduct a **bulk sampling program in Q3 2011, and trial mining will follow** the completion of the bulk sample program. Drilling and bulk sampling will be used to support an updated NI 43-101 resource estimate expected in Q4 2011.

The company is targeting the scaled ramp of production to +/-10,000 carats per month within 12 months of beginning the trial-mining phase. The Company's initial long-term production target for the project is **+/- 200,000 carats per year starting from 24-36 months after establishing operations.**

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 start in Q4-2011, with full production projected to begin in Q4-2012.

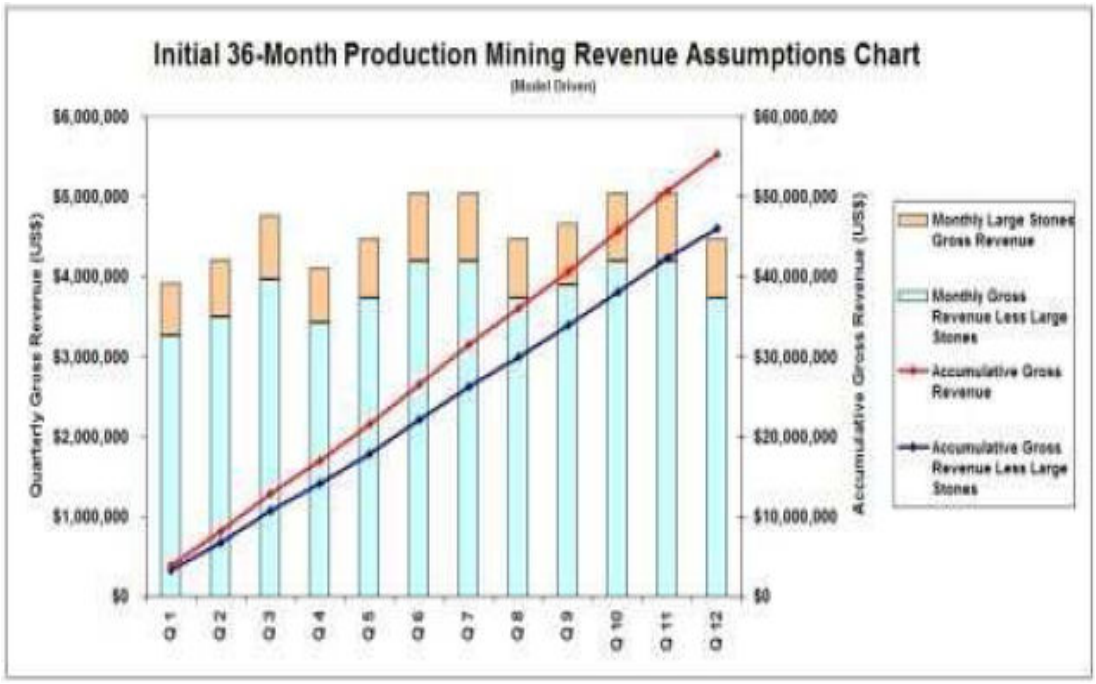


Figure 6: 36 month projected production mining revenues
(Source: Company)

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 **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:

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.

Darren Vucurevich B. Mgt. CMA – Chief Financial Officer and 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. 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.

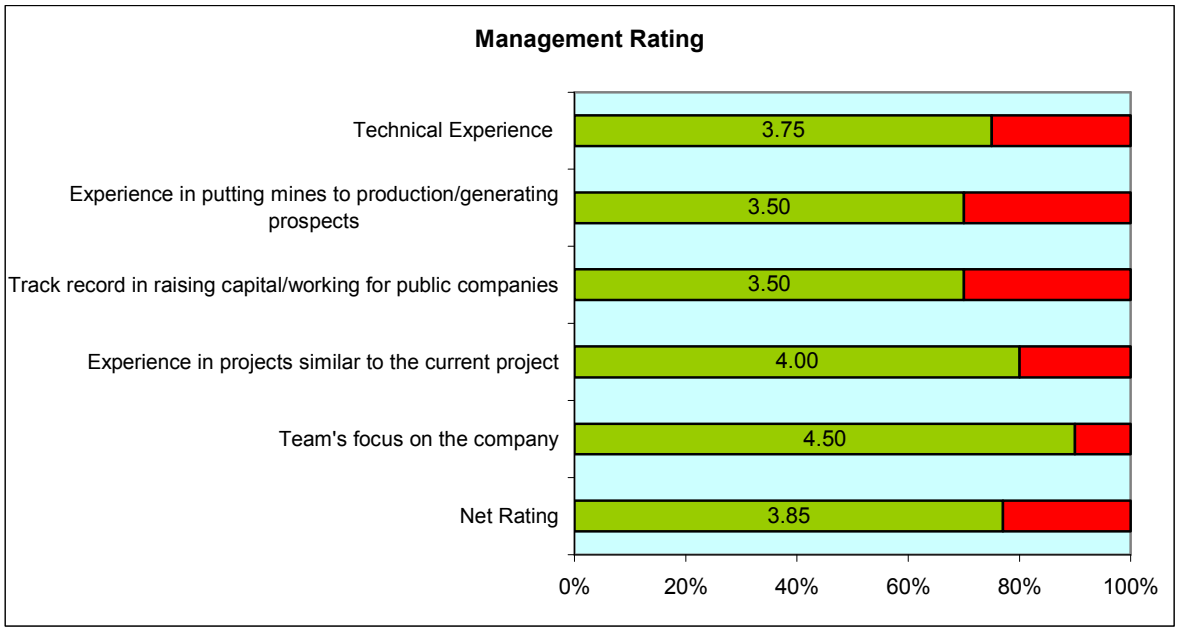
Dr. Stephen E. Haggerty - Director: Dr. Haggerty is a distinguished research professor and has been recognized as one of the world's leading diamond experts. His extensive knowledge and involvement over four decades in the diamond industry greatly compliments the Company's current growing management 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.

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 3.85 out of 5.00.**



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 reviewed the company's annual "Management Information Circular" to see if 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, 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 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.

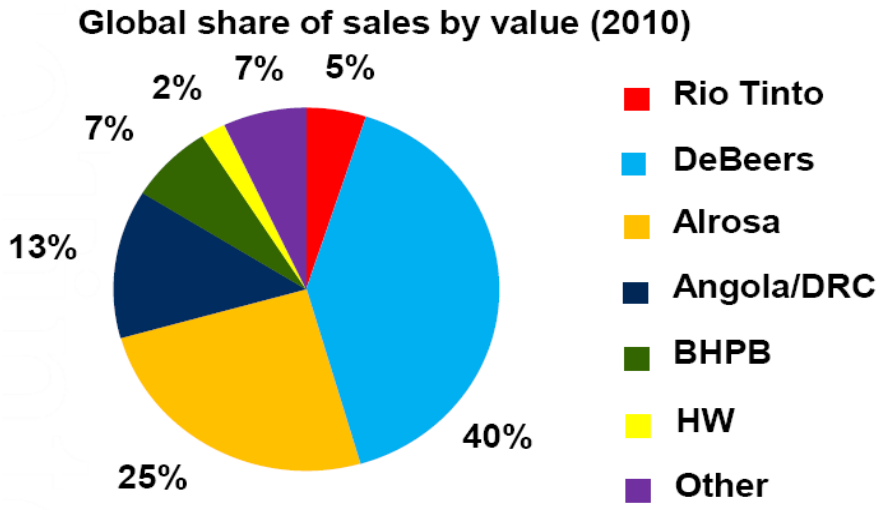
Production by Country (2008 and 2009, Values in 000's carats)

Country	2008	2009	Percent Total 2008	Percent Total 2009
Botswana	25,000	32,000	26.60%	35.29%
Russia	23,300	21,900	24.79%	24.15%
Canada	18,000	12,000	19.15%	13.23%
Angola	10,000	8,000	10.64%	8.82%
Congo	5,400	5,400	5.74%	5.96%
South Africa	6,100	5,200	6.49%	5.74%
Guinea	1,100	2,000	1.17%	2.21%
Namibia	2,200	2,000	2.34%	2.21%
Other	2,900	2,169	3.09%	2.39%
Total	**94,000**	**90,669**	**100%**	**100%**

Source: (Geology.com, USGS Mineral Commodity Summary)

Botswana, Russia and Canada were the leading producers of diamonds in 2009.

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.

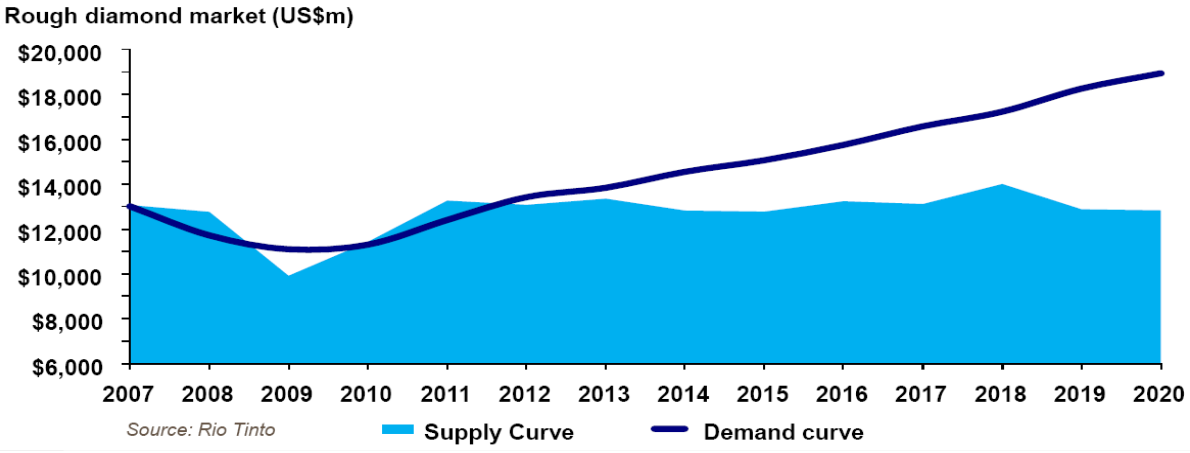


Source: Rio Tinto plc

As the above chart illustrates, the **supply of diamonds is 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.

Supply-Demand

The consensus supply-demand forecasts for gem-grade diamonds indicates that demand will outpace supply. The chart below illustrates the supply demand forecast for rough diamonds. Although this chart is from Rio Tinto (NYSE: RIO), a diamond miner, it is in line with our research from other sources that indicate demand is currently in line with supply but this will change over the next 5 years when demand will start to outpace supply.



Source: Rio Tinto

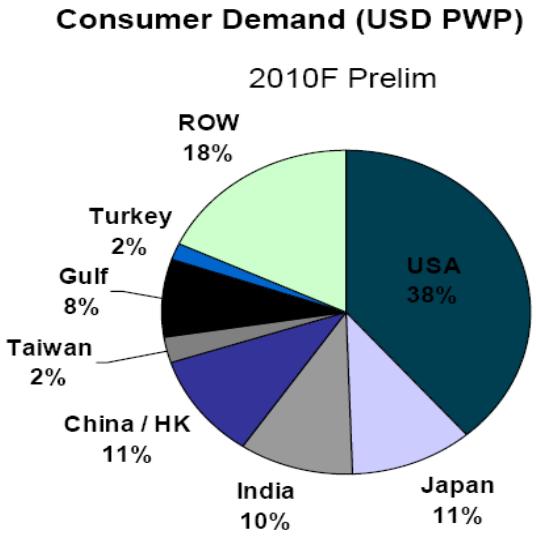
There are a couple of primary drivers of this gap between the supply and demand of rough diamonds:

- 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.

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



Source: De Beers

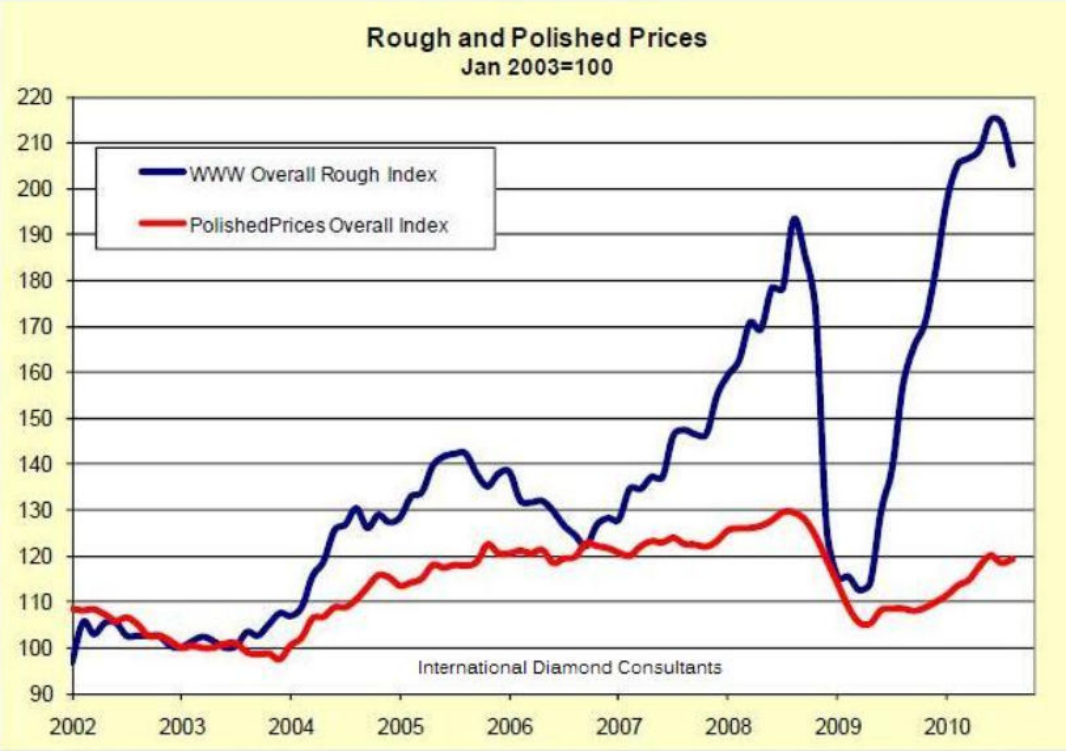
As recently as 2006, China and India accounted for only 5% and 8% of total demand, respectively. **Reports now indicate China is second in global demand for diamonds.** It is believed that China and India will continue to show strong growth with consensus growth rates expected around 15% p.a. while mature markets are expected to grow roughly in line with GDP. De Beers predicts by 2015, China, Honk Kong, Taiwan, India and the Gulf will account for nearly 40% of consumer demand (currently 21%).

Given the strong demand in developing countries (assuming this trend continues), 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.

Rough Diamond Pricing

Pricing – The chart below shows the Overall Rough and Polished Prices Indexes. We estimate the current rough diamond price is at about US$135/carat, which we use in our valuation models, as we believe the current price is a conservative and reasonable indicator of long-term prices.

Diamond Prices Index



Source: WWW international diamond consultants Ltd.

As shown in the above chart, rough diamond prices were more volatile, especially in the past few years. We believe the significant difference in price volatility can be explained by looking at the end users of rough and polished diamonds. Rough diamonds are largely sold to jewelry manufacturers while polished diamonds are sold to consumers. Diamond manufacturers are able to accept price fluctuations whereas consumers tend to be more price resilient. We do not anticipate such extreme volatility as was recently experienced in the future unless similar circumstances arise as was witnessed in late 2008.

Financials

At the end of December 31, 2010 (end of Q3-2011), the company had $0.60 million in cash. The company had a working capital deficient of $.06 million. During Q3-2011, the company posted a net loss of $0.21 million (EPS: -$0.01) and for the 9 months of 2011, the net loss was $1.49 million (EPS: -$0.06). The table below shows a summary of the company's cash and liquidity position at the end of December 2010.

(in C$)	2011 (9 mos)
Cash	$598,374
Working Capital	($55,768)
Current Ratio	0.92
LT Debts/Assets	17.45%

Subsequently, on March 28, 2011, Tiffany & Co.'s strategic partnership with Diamcor

has provided financing to the company which has substantially improved its cash position, adding $5.5 million to finance the advancement, development and deployment of the infrastructure to begin mining and production.

Stock options and warrants: The company had 6.34 million warrants (weighted average exercise price of $0.50) and 4.78 million stock options (weighted average exercise price of $0.35) outstanding as of May 2011. All of the warrants and options are currently in the money.

Warrants			
3,586,870	$0.50	$1,793,435	03-Mar-12
2,752,579	$0.50	$1,376,290	04-May-12
6,339,449	**$0.50**	**$3,169,725**	

Stock Options			
115,000	$0.36	$41,400	March-01-12
182,500	$0.50	$91,250	September-17-12
380,000	$0.50	$190,000	March-17-13
2,900,000	$0.30	$870,000	June-02-15
1,200,000	$0.38	$456,000	April-07-16
4,777,500	**$0.35**	**$1,648,650**	

Valuation

Our revised valuation on DMI is $0.90 per share, up from our previous valuation of $0.65 per share. Our valuation increased primarily because we raised our long-term price forecast on rough diamonds from US$100/carat to US$130/carat as mentioned earlier.

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	2012
Mill Processing (tpy)	2012: 0.83 mm; 2013-15: 2.30 mm; 2016+: 4.6 mm
Mine Life (in years)	15
Rough Diamond Price (US$/carat)	$135
Weighted Average Operating Cost (US$/carat)	$44.8
Initial Capital Costs (US$) - to take the project to full production	$3,000,000
Discount Rate	11.5%
Net Present Value (70%) - C$	**$25,878,117**
Working Capital - LTD	$1,182,295
Fair Value	$27,060,412
No. of shares (diluted)	30,177,097
Value per share	**$0.90**

***the convertible debt is assumed to be converted to 3.05 million shares**

We reiterate our BUY rating and raise our fair value from $0.65 to $0.90 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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