Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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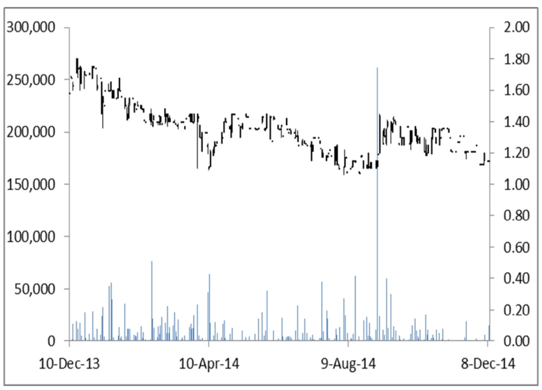
Diamcor Mining Inc. (TSXV: DMI, OTC: DMIFF) – Advancing to 24/7 Operations

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

Market Data (as of December 10, 2014)

Current Price	**C$1.13**
Fair Value	**C$2.45**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	C$1.06 – C$1.80
Shares O/S	37.94 mm
Market Cap	C$43.26 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	-27.8%
YoY TSXV	-24.1%

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



Investment Highlights

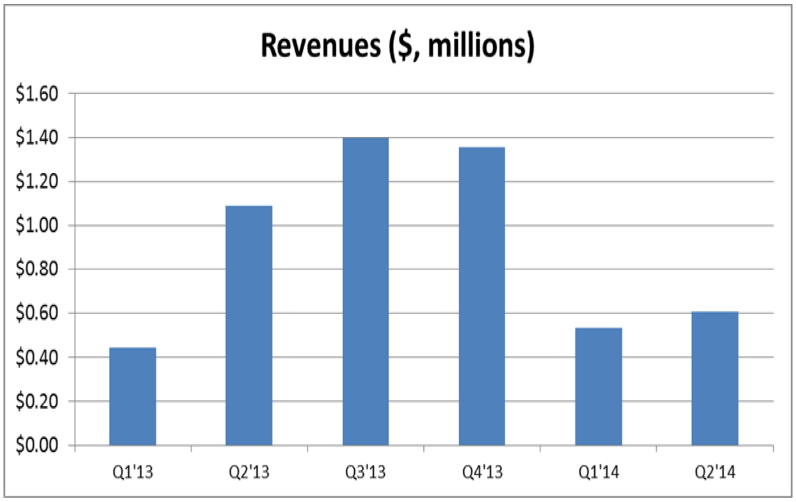
- With the receipt of the mining permit in September, Diamcor Mining ("DMI", "company") is now advancing its Krone-Endora diamond project to a 24/7 operation.
- The company sold 3,449 carats of rough diamonds ($0.61 million in revenues) versus 2,507 carats in Q1-2014 ($0.53 million in revenues).
- Gross margins continue to show strong YOY improvement as DMI has been able to reduce labor and contracted equipment expenses.
- The company reported a net loss of $0.76 million (EPS:-$0.01) in the first six months of FY2014.
- At the end of Q2-2014, the company had $1.27 million in cash. Debt to capital remains high. Most of the debt is held by DMI's strategic partner, Tiffany & Co. (NYSE: TIF).
- DMI's share price has dropped 16% since early November, although on low trading volume. Considering the upcoming catalysts (production ramp up and an updated technical report in early 2015), we believe the current price offers investors a very attractive entry point.

Key Financial Data (YE - March 31) (C$)	2012	2013	Q2-2014
Cash	793,622	3,880,112	1,274,176
Working Capital	(2,837,520)	1,180,308	(2,141,354)
Total Debt	11,360,737	8,250,820	7,794,396
Total Assets	7,258,428	11,795,700	9,491,217
Revenues	539,979	4,287,129	609,058
Net Income	(4,305,834)	(3,693,073)	(409,896)
EPS	(0.10)	(0.09)	(0.01)

Diamcor Mining Inc. holds a 70% interest in the Krone-Endora diamond project and has a strategic alliance with Tiffany & Co. Trial mining is underway. The company has sold US$5.6 million worth of rough diamonds so far.

QOQ Improvement in Revenues

In Q2-2014 (quarter ended September 30, 2014), the company sold 3,449 carats of rough diamonds, up from 2,507 carats in Q1, generating $0.61 million in revenues. Revenues in the six month period were $1.14 million versus $1.54 million in the comparable period in the previous year. The following chart shows quarterly revenues since Q1-2013.



Revenues dropped due to reduced levels of commissioning and testing exercises (due to the expansion of the dry screening and treatment plants) in the current year, which resulted in lower diamond recoveries. So far, most of the materials processed have been in the +1.0mm to -26.0mm size range. Materials in the +26.0mm category are stockpiled, and will be processed once the company finalizes its plans for the efficient processing of those materials.

The following table shows all diamond sales so far. **The company has so far sold a total of 25,762 carats for gross proceeds of US$5.55 million @ at an average rate of US$215 per carat.**

Date	Carats	Revenues (US$, M)	US$ per Carat
Nov-12	3,580	$0.51	$143
Jul-13	3,123	$0.42	$133
Sep-13	4,753	$0.86	$180
Oct-13	3,863	$0.58	$150
Oct-13*	91.7	$0.82	$8,924
Jan'14 - Mar'14	4,352	$1.01	$233
Jan'14 - Mar'14*	43.9	$0.32	$7,242
Apr'14 - Jun'14	2,507	$0.49	$194
Jul'14 - Sep'14	3,449	$0.55	$161
Total	**25,762**	**$5.55**	**$215**

* Large Gem Quality Diamond Sale

Note – The figures in the table above are slightly different from the figures disclosed by the company due to rounding.

Gross margins improve

At the end of Q2, the company had **1,534 additional carats of rough diamonds in inventory**, which are expected to be sold in future sales tenders. At US$161/carat, the inventory is worth approximately US$247k.

The company has been able to report strong improvement in margins (see table below) this year as they were able to reduce labor expenses due to the completion of various necessary infrastructure for the site.

Margins	Q1-2013	Q2-2013	2013 (6M)	Q1-2014	Q2-2014	2014 (6M)
Gross	22.37%	41.46%	35.91%	70.96%	60.70%	65.49%
EBITDA	-100.90%	-195.87%	-168.27%	-12.05%	-2.69%	-7.06%
EBIT	-138.02%	-210.39%	-189.35%	-54.47%	-40.20%	-46.86%
EBT	-178.65%	-227.19%	-213.08%	-86.07%	-67.35%	-76.09%
Net	-178.63%	-227.26%	-213.12%	-64.80%	-67.30%	-66.13%

The company reported a net loss of $0.76 million (EPS: -$0.01) in the first six months of FY2014, versus a net loss of $3.27 million (EPS: -$0.08) in the comparable period in the previous year.

As mentioned in our previous reports, we will start reporting our revenue and EPS estimates once the project commences commercial production.

Cash from operations were negative $0.62 million versus negative $0.56 million in the comparable period in the previous year. However, free cash flows dropped sharply YOY from negative $0.95 million, to negative $1.86 million, due to a significant increase in CAPEX from $0.39 million to $1.24 million. This was because of the plant expansion work this year.

	2012 (6M)	2013 (6M)	2014 (6M)
Cash Flow from Operation	(1,678,520)	(562,364)	(622,330)
Cash Flow from Financing	1,248,639	1,220,639	(672,157)
Cash Flow from Investing	(687,898)	(389,198)	(1,242,594)
Free Cash Flow to Firm	(2,366,418)	(951,562)	(1,864,924)

At the end of Q2-2014, the company had $1.27 million in cash. Working capital, and the current ratio, were negative $2.14 million, and 0.5x, respectively. The table below shows a summary of the company’s cash and liquidity position.

Liquidity Analysis	2012	2013	Q1-2014	Q2-2014
Cash	793,622	3,880,112	2,281,314	1,274,176
Working Capital	(2,837,520)	1,180,308	(784,553)	(2,141,354)
Current Ratio	0.29	1.34	0.78	0.45
Debt / Capital	187.9%	83.4%	88.8%	93.7%
EBIT Interest Coverage Ratio	(5.23)	(4.84)	(1.72)	(1.48)

The company had the following debt at the end of September 30, 2014.

- $2.11 million term loan (due March 2016; interest - 7% p.a.; currently making payments of $124k per month)
- $2.82 million term loan (due January 2018; interest - 9% p.a.; repayment of $91k per month starts in January 2015)
- $1.88 million convertible debenture (interest – 9% p.a.; conversion price - $1.60 per share; repayment of $61k per month starts in January 2015).
- $0.97 million due to Nozala Investments – no terms of repayment – interest of 12% p.a.

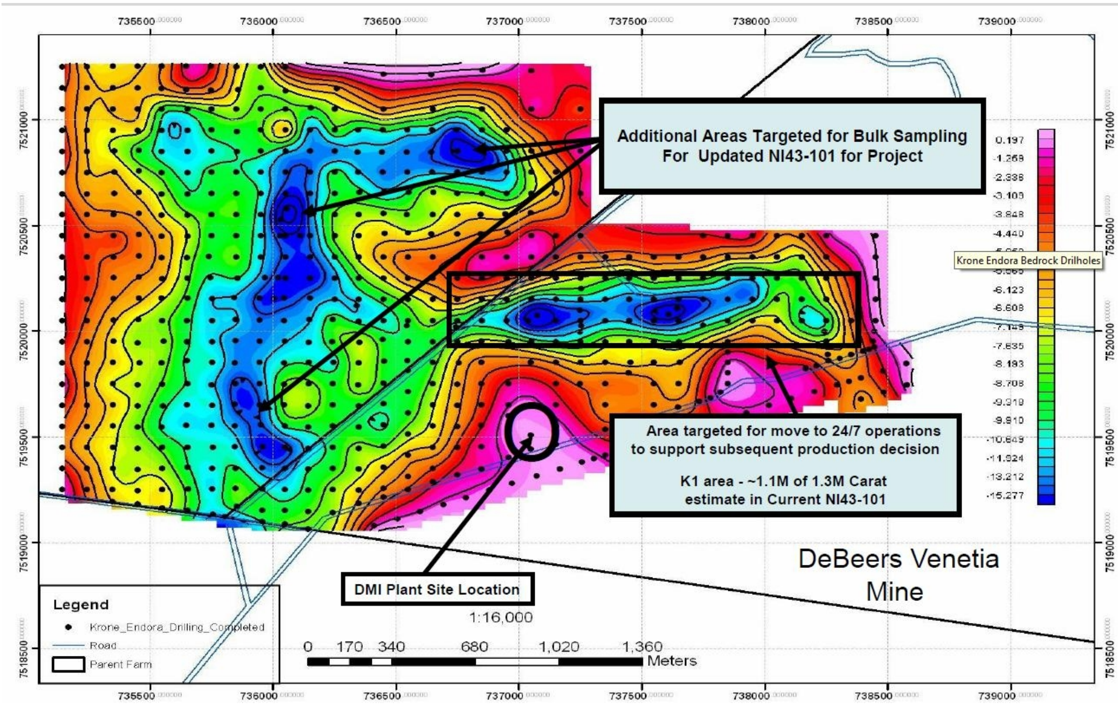
The current portion of the above debt is approximately $2.86 million. The total debt is $7.79 million, indicating total debt to capital of 94%. **Although this is very high, as mentioned in our previous reports, all the outstanding term loans, and the convertible debentures, are held by Tiffany & Co. We expect the company will be able to negotiate terms with Tiffany if the company's development plans and cash flows do not meet expectations.**

Stock options and warrants: We estimate the company currently has 2.17 million warrants (weighted average exercise price of $1.78), and 6.48 million stock options (weighted average exercise price of $0.76) outstanding. Approximately 3.63 million options are currently in the money. If exercised, the company should be able to raise up to $1.19 million.

Preparing to Commence 24/7 Operations

With the receipt of a mining permit in September (discussed in our previous report), the company can now move ahead with its plan to bring the project to 24/7 operations. **The permit covers 658 hectares of the total project area of 5,888 hectares.** 100% of the project's NI 43-101 resource estimate (which covers 307 hectares) falls within the mining right area. Diamcor has submitted an application for the remaining project area.

The following map shows the area targeted to move to 24/7 operations relative to the plant site.



Source: Company

DMI intends to update their NI 43-101 report (expected in early 2015) to reflect the bulk sampling and other development work done on the project since the last report published in 2009. **The company expects to commence 24/7 operations by Jan - Mar 2015.**

Rating

We have not made any changes to our Discounted Cash Flow model. We maintain our fair value estimate at $2.45 per share. We also maintain our BUY rating, and risk rating of 4 (speculative).

Risks

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

- The value of the company is heavily 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 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.
- The project does not have a NI 43-101 compliant economic study completed.
- Delays in achievement of commercial production.
- Balance sheet is currently leveraged.
- Heavy rains (such as the one in Q1 2013) may negatively impact mining operations.
- Exchange rate risks.

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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