

Auditors' Report and Consolidated Financial Statements of

DIAMOND FIELDS INTERNATIONAL LTD.

June 30, 2006 and 2005

Management's Responsibility for Financial Reporting

The consolidated financial statements have been prepared by management who, when necessary, has made informed judgements and estimates of the outcome of events and transactions, with due consideration given to materiality. Management acknowledges its responsibility for the fairness, integrity and objectivity of all information in the consolidated financial statements.

As a means its responsibility, management relies on the company's system of internal control. This system has been established to ensure, within reasonable limits, that the assets are safeguarded, transactions are properly recorded and are executed in accordance with management's authorization, and that the accounting records provide a solid foundation from which to prepare the consolidated financial statements.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting solely of non-management directors. This committee meets periodically, reviews the scope of the external audit, the adequacy of the system of internal control and the appropriateness of the financial reporting, and then makes its recommendations to the Board of Directors. Based on those recommendations, the Board of Directors approves the consolidated financial statements.

Auditors' Report

To the Shareholders of
Diamond Fields International Ltd.

We have audited the consolidated balance sheet of Diamond Fields International Ltd. as at June 30, 2006 and the consolidated statement of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2006 and the results of its operations and its cash flows for each of the year ended in accordance with Canadian generally accepted accounting principles.

The Consolidated Financial Statements as of June 30, 2005 and for the year then ended, were audited by other auditors who expressed an opinion without reservation in their report dated September 26, 2005.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants
Toronto, Ontario
October 26, 2006

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Balance Sheets

June 30, 2006 and 2005

(Expressed in U.S. dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT		
Cash	\$ 286,887	\$ 1,351,146
Accounts receivable	47,266	66,244
Prepaid expenses and other	41,116	330,119
Inventories (Note 4)	502,564	291,829
	<u>877,833</u>	<u>2,039,338</u>
MINERAL PROPERTIES (Note 5)	8,148,381	8,772,684
PROPERTY, PLANT AND EQUIPMENT (Note 6)	2,776,959	3,216,761
	<u>\$ 11,803,173</u>	<u>\$ 14,028,783</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 908,142	\$ 638,118
Loan payable (Note 7)	-	1,588,212
Current portion of note payable (Note 8)	2,213,620	420,580
	<u>3,121,762</u>	<u>2,646,910</u>
NOTE PAYABLE (Note 8)	-	1,282,670
FUTURE INCOME TAXES (Note 9)	1,215,234	1,537,375
	<u>4,336,996</u>	<u>5,466,955</u>
NATURE OF OPERATIONS AND GOING CONCERN (Note 1)		
COMMITMENTS (Note 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	33,709,774	28,696,567
Contributed surplus (Note 11)	2,122,507	2,041,205
Equity portion of note payable (Note 8)	709,496	709,496
Accumulated Deficit	(28,070,866)	(21,880,706)
Cumulative translation adjustments (Note 2(c))	(1,004,734)	(1,004,734)
	<u>7,466,177</u>	<u>8,561,828</u>
	<u>\$ 11,803,173</u>	<u>\$ 14,028,783</u>

APPROVED BY THE BOARD:

"Gregg Sedun"

Director

"Earl Young"

Director

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Statements of Loss and Deficit

Years ended June 30, 2006 and 2005

(Expressed in U.S. dollars)

	2006	2005
DIAMOND SALES	\$ 2,916,733	\$ 5,391,621
OPERATING COSTS		
Production costs (including depreciation and depletion)	4,667,466	1,988,101
Royalties, selling and marketing	342,853	541,438
	5,010,319	2,529,539
	(2,093,586)	2,862,082
OTHER OPERATING COSTS		
Vessel repair and maintenance	-	958,529
	(2,093,586)	1,903,553
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	42,752	52,408
Consulting	138,720	165,807
Financing fees	304,371	202,310
Interest on loan and note payable (Note 7 and 8)	583,749	557,613
Investor relations	136,882	153,248
Maintenance	49,249	83,523
Office	358,242	327,835
Professional fees	483,375	299,904
Regulatory	66,317	59,545
Salaries and benefits	1,108,268	1,146,620
Stock-based compensation	81,302	314,335
Travel and accommodation	154,476	193,083
	3,507,703	3,556,231
OTHER INCOME (EXPENSE)		
Interest and other income	34,930	39,709
Loss on disposal of property, plant and equipment	(21,398)	-
Write-off of exploration properties (Note 6)	(963,974)	(2,059,797)
Foreign exchange gain/(loss)	39,430	(105,372)
Equity in loss of significantly influenced investee	-	-
	(911,012)	(2,125,460)
LOSS BEFORE INCOME TAXES	(6,512,301)	(3,778,138)
FUTURE INCOME TAXES (RECOVERY)/EXPENSE	(322,141)	36,110
NET LOSS FOR THE YEAR	(6,190,160)	(3,814,248)
DEFICIT, BEGINNING OF YEAR	(21,880,706)	(18,066,458)
DEFICIT, END OF YEAR	\$ (28,070,866)	\$ (21,880,706)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.06)	\$ (0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)	101,945	69,633

See accompanying Notes to the Consolidated Financial Statements.

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Expressed in U.S. dollars)

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Net loss	\$ (6,190,160)	\$ (3,814,248)
Items not involving use of cash		
Amortization and depletion	748,374	414,848
Accrued interest	114,779	82,283
Financing fees	304,371	506,681
Non-cash interest expense	395,591	284,682
Loss on disposal of property, plant and equipment	21,398	-
Write-off of exploration properties	963,974	2,059,797
Recovery of future income taxes	(322,141)	36,110
Stock-based compensation	81,302	314,335
Net change in non-cash operating working capital items (Note 12)	62,899	(4,081)
	<u>(3,819,613)</u>	<u>(119,593)</u>
FINANCING ACTIVITIES		
Share capital issued, net of issue costs	5,013,207	2,116,978
Proceeds/(repayment) from loan payable	(1,588,212)	1,588,212
Repayment of note payable	-	(341,043)
	<u>3,424,995</u>	<u>3,364,147</u>
INVESTING ACTIVITIES		
Expenditures on mineral properties	(519,409)	(1,465,223)
Proceeds on disposal of property, plant and equipment	4,416	-
Purchases of property, plant and equipment	(154,648)	(2,829,236)
	<u>(669,641)</u>	<u>(4,294,459)</u>
DECREASE IN CASH	(1,064,259)	(1,049,905)
CASH, BEGINNING OF YEAR	1,351,146	2,401,051
CASH, END OF YEAR	\$ 286,887	\$ 1,351,146
OTHER SUPPLEMENTARY INFORMATION:		
Interest received	\$ 34,612	\$ 30,837
Interest paid	\$ 74,754	\$ 190,648
Income taxes paid	\$ -	\$ -

See accompanying Notes to the Consolidated Financial Statements.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

1. NATURE OF OPERATIONS AND GOING CONCERN

Diamond Fields International Ltd. and its subsidiaries (individually and collectively referred to as the “Company” or “Diamond Fields”) are engaged primarily in the exploration, development and recovery of gem quality diamonds from its property interests located in Namibia. Mining on the Company’s Namibian sea concessions is carried out using a marine mining vessel.

The Company also has international exploration activities, primarily for diamonds and gold in Liberia.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets, discharge its liabilities and meet its future obligations in the normal course of business. Accordingly, the accompanying financial statements do not include any adjustments to the recoverability and classification of recording of assets, or the amounts or classification of liabilities, that might be necessary should the company be unable to continue as a going concern.

While these financial statements have been prepared on the basis of accounting principles applicable to a going concern several adverse conditions and events cast substantial doubt upon the validity of this assumption. For the period ended June 30, 2006 the company incurred a loss of \$6,190,160, and had a cash outflow of \$3,819,613 from operations. In addition, the working capital shortage was \$2,243,929 at June 30, 2006. The dry-docking of the Company’s mining vessel just before the financial year-end placed further pressure on working capital requirements, as well the capital expenses incurred subsequent to year-end for a major overhaul of the vessel. These circumstances cast substantial doubt as to the company’s ability to continue as a going concern.

The Company is seeking to raise additional financing required to meet its debt repayment obligations (note 18), continue its exploration activities, maintain its exploration properties, and operate its mining vessel. There can be no assurance as to the success of such future financing activities. Accordingly, the Company’s ability to continue its operations in the normal course of business is dependent upon its ability to obtain additional financing, to receive the continued support from its noteholder and other creditors and, ultimately, to obtain profitable operations.

These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values of assets and liabilities should the Company be unable to continue as a going concern. These adjustments could be material.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements have been prepared under the historical cost convention. The significant accounting policies used in these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

(a) *Principles of consolidation*

These consolidated financial statements include the accounts of Diamond Fields controlled subsidiaries. All significant intercompany transactions and balances have been eliminated. Where control of an entity is obtained during a financial year, its results are included in the statements of loss and deficit from date on which control commences.

(b) *Accounting estimates*

Generally accepted accounting principles require management to make assumptions and estimates that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the estimated net realizable value of inventories, the estimated indicated resources (probable diamond reserves), any asset retirement obligation, the provision for income taxes and composition of future income tax assets and liabilities, and the estimated future operating results and net cash flows from the Company's mineral properties and interests and capital assets.

(c) *Foreign currencies*

Diamond Fields considers the U.S. dollar to be its functional currency as it is the currency of the primary economic environment in which the Company operates. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of the transactions. Revenues and expenses denominated in foreign currencies are translated at rates approximating the exchange rates in effect at the time of the transactions. Exchange gains and losses arising on translation are included in other income (expenses).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

The cumulative translation adjustments included in shareholders' equity resulted from the Company's adoption of the U.S. dollar as its functional and reporting currency in 2002.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Cash*

Cash includes short term money market instruments which, on acquisition, have a term to maturity of three months or less.

(e) *Inventories*

Diamond inventory is stated at the lower of weighted average cost of production and net realizable value, and consists of diamond stocks recovered from the Namibian operations. Net realizable value is the estimated selling price in ordinary course of business.

Materials and supplies are valued at the lower of cost, less allowances for obsolescence, and replacement cost.

(f) *Investments*

Investments in companies where the Company has the ability to exercise significant influence, are accounted for using the equity method. Under this method, the Company's share of their earnings and losses is included in operations and its investments therein are adjusted by a like amount. Dividends received are credited to the investment accounts.

The Company has a 24% interest in Diamond Tenders (Belgium) N.V. which is controlled by a company that is in turn controlled by a shareholder of the Company.

Long term investments are accounted for using the cost method, whereby income is included in operations when received or receivable.

Provisions for impairment of investments are made, where necessary, to recognize other than temporary declines in value.

(g) *Mineral properties*

Direct costs incurred for the acquisition of, exploration for and development of mineral properties, net of cost recoveries and incidental revenues, are capitalized by property. No gains or losses are recognized on the sale of the properties except where there is a significant disposition of reserves. Partial dispositions of undeveloped properties and option proceeds are credited to the cost of the related property except that when the proceeds exceed cost, the excess is credited to operations.

On the commencement of commercial production, the net capitalized costs are charged to operations on a unit-of-production basis, by property, using the estimated indicated resources (probable diamond reserves) as the depletion base.

The Company reviews the carrying values of its mineral properties on a regular basis. This review generally is made by reference to the timing of the exploration and/or development work, the work programs and exploration results experienced by the

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) *Mineral properties (continued)*

Company, and, in the case of producing properties, the estimated future operating results and net cash flows. When conditions indicating an impairment are determined to be present, the carrying value mineral properties are written down to their estimated fair value. The ultimate recoverability of the amounts shown for mineral properties is dependent on the confirmation of economically recoverable reserves, the ability of the Company to obtain the necessary financing to successfully complete their development, including compliance with the requirements of lenders who are providing the financing from time to time, and upon future profitable operations.

(h) *Property, plant and equipment*

Land is not depreciated. Property, plant and equipment are recorded at cost and are amortized on a straight line basis over their estimated useful lives as follows:

Automobiles	Three years
Buildings, plant and equipment	Three to forty years
Leasehold improvements	Two years
Mining vessel and plant equipment	Three to ten years
Office equipment	Two to six years
Software	Two years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(i) *Note payable*

The note payable is a compound financial instrument. Accordingly, the fair value of the conversion privilege forming part of the note has been classified as part of shareholders' equity with the balance of the proceeds classified as a financial liability. The carrying value of the financial liability is being accreted to the principal amount as additional interest expense over the term of the note.

(j) *Revenue recognition*

Revenue from diamond sales is recognized when:

- (i) persuasive evidence of an arrangement exists;
- (ii) the risks and rewards of ownership pass to the purchaser, including delivery of the diamonds;
- (iii) the selling price is fixed or determinable; and
- (iv) collectibility is reasonably assured.

DIAMOND FIELDS INTERNATIONAL LTD.
Notes to the Consolidated Financial Statements
Years ended June 30, 2006 and 2005
(All amounts are expressed in U.S. dollars except where otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Stock-based compensation

The Company has an Employees' and Directors' Equity Incentive Plan which is disclosed in Note 11. The Company accounts for its grants under that Plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a graded basis over the vesting period.

(l) Income taxes

Future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, generally using the enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carryforwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

Future income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(m) Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as shares issuable on conversion of the note payable and the exercise of outstanding stock options, on the weighted average number of common shares outstanding during the year, if dilutive. No potential common shares are included in the computation of any diluted per share amount when an enterprise has a loss before discontinued operations and extraordinary items, even if the enterprise reports net income. For this purpose, the "if-converted" method is used for the assumed conversion of the note payable at the beginning of the year. In addition, the "treasury stock method" is used for the assumed proceeds on the exercise of stock options that are used to purchase common shares at the average market price during the year.

(n) Asset retirement obligations

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) *Asset retirement obligations (continued)*

obligation, the carrying amount of the liability is adjusted annually for the passage of time and changes to the amount or timing of the underlying cash flows needed to settle the obligation. There was no obligation balance for the years ended June 30, 2006 or 2005.

(o) *Impairment of long-lived assets*

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

(p) *Segment Reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires companies to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgements about matters that are inherently uncertain.

The following policies are considered to be the critical accounting policies as they involve the use of significant estimates:

(a) *Mineral Properties*

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the estimated indicated resources (probable diamond reserves), and the estimated future operating results and net cash flows from the Company's mineral properties. The estimation of reserves and resources is inherently uncertain and involves subjective judgements about many relevant factors. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgements used in engineering and geological interpretation, which may prove to be unreliable. There can be no assurance that estimates of indicated mineral resources (probable diamond reserves) will be accurate or that such mineral resources can be mined or processed profitably.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

3. CRITICAL ACCOUNTING ESTIMATES (Continued)

(a) *Mineral Properties(Continued)*

Estimated indicated resources (probable diamond reserves) for the Company's Namibian marine diamond concessions are based on the September 2000 feasibility study by AGRA Simons Ltd., which contemplated different mining technology than that in use by or available to the company.

On the commencement of commercial production, the net capitalized costs are charged to operations on a unit-of-production basis, by property, using the estimated indicated resources (probable diamond reserves) as the depletion base.

The Company carries its mineral properties at cost less a provision for impairment. The Company defers exploration and development costs, which are related to specific projects until the commercial feasibility of the project is determinable. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects. The costs of each property and related expenditures will be amortized over the economic life of the property on a units-of-production basis. Costs are charged to operations when a property is abandoned or when impairment in value that is other than temporary has been determined.

The Company undertakes a review of the carrying values of mineral properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value. In undertaking this review, management of the Company is required to make significant estimates of, among other things, geological potential, the estimated indicated resources (probable diamond reserves), future production and sales volume, unit sales prices, future operating and capital costs and reclamation costs to the end of the project's life. These estimates are subject to various risks and uncertainties, which may ultimately have an affect on the expected recoverability of the carrying values of the mining properties and related expenditures.

(b) *Note Payable*

The note has been accounted for as a compound financial instrument comprising both a financial liability and an equity instrument. The allocation of the proceeds of the note between the two components was based on the estimated present value of the future payments of principal and interest on the note, discounted at the prevailing rate for a similar note without a conversion privilege, and the estimated fair value of the conversion privilege based on a Black-Scholes Model.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

3. CRITICAL ACCOUNTING ESTIMATES (Continued)

(c) *Stock-based Compensation*

The Company accounts for its grants under the Employees' and Directors' Equity Incentive Plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a graded basis over the vesting period. The Company used the Black-Scholes option pricing model to estimate the value of the options granted.

(d) *Income Taxes*

Future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, generally using the enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

4. INVENTORIES

	<u>2006</u>	<u>2005</u>
Diamond inventory	\$ 304,199	\$ 108,010
Materials and supplies	198,365	183,819
	<u>\$ 502,564</u>	<u>\$ 291,829</u>

5. MINERAL PROPERTIES

	<u>2006</u>	<u>2005</u>
Namibian sea concessions	\$ 7,215,401	\$ 7,396,194
Other exploration properties	932,980	1,376,490
	<u>\$ 8,148,381</u>	<u>\$ 8,772,684</u>

Namibian sea concessions

Through its subsidiaries, Angra Pequena Diamond Company (Pty) Ltd. And Diamond Fields (Namibia) (Pty) Ltd., the Company owns a 100% interest in the Luderitz sea concessions off the coast of Namibia.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

5. MINERAL PROPERTIES (Continued)

Other exploration properties

Liberian exploration properties

Diamond Fields entered into an option agreement in early August 2004 with Liberia-based Ducor Minerals Inc. ("Ducor"), pursuant to which it may earn an interest in Ducor's rights held under two mineral exploration agreements between Ducor and the Republic of Liberia. The Gbapolu (Grand Cape) and Grand Gedeh properties cover a total area of approximately 1,800 km² and are prospective for diamonds and gold, respectively.

The Company may earn 70% of Ducor's interest by issuing to Ducor 1,000,000 shares (200,000 shares issued to date and the Company has paid \$60,000 in lieu of 200,000 shares) in five annual instalments of 200,000 shares each, and by spending \$2,000,000 on exploration over the next four years. Qualifying expenditure under the terms of the agreement amounted to \$871,729 as at June 30, 2006. Ducor has the right to request \$30,000 in lieu of one-half of each annual stock issue, and Diamond Fields has the right to pay \$60,000 in lieu of one-half of each annual stock issue. The Company may withdraw from the project at any time.

Madagascar nickel exploration program

The Company has extended the evaluation period of the exclusive agreement which guarantees Diamond Fields the right to acquire ownership of the Valozoro lateritic nickel deposit in Madagascar.

Discontinued Projects

On December 28, 2005 the Company reported that Inco Ltd. advised Diamond Fields that it did not plan further work on the Company's Ammassalik nickel project in East Greenland and thereby retained no interest in the land package complied by Diamond Fields. Previously, Diamond Fields, Inco, and Nuna entered into agreements whereby Inco may have earned an interest in exploration licenses held by the Company or optioned by Diamond Fields from Nuna, on Ammassilik Island in East Greenland.

The write-off of exploration properties, comprised of direct exploration costs and the elimination of associated royalty obligations, related to East Greenland (Ammassalik) amounted to \$904,890.

Through its indirect wholly-owned subsidiary, Diamond Fields (South Africa) (Pty) Ltd., the Company owned deep sea diamond concessions off the west coast of South Africa, which expired in the current year.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

6. PROPERTY, PLANT AND EQUIPMENT

	2006			2005
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 95,535	\$ -	\$ 95,535	\$ 95,535
Buildings, plant and equipment	288,958	12,636	276,322	277,800
Automobiles	91,741	37,687	54,054	12,000
Office equipment	106,369	80,603	25,766	51,760
Software	-	-	-	5,214
Leasehold improvements	-	-	-	4,937
Mining vessel and plant equipment	2,895,235	569,953	2,325,282	2,769,515
	\$3,477,838	\$ 700,879	\$2,776,959	\$3,216,761

Depreciation charged on property, plant and equipment for the year included in the Loss and Deficit Statement amounted to \$568,635.

7. LOAN PAYABLE

The Company had a loan from Quest Capital Corporation ("Quest") as a promissory note in the principal amount of \$1,588,212 (Cdn \$1,950,000) with interest payments due on a monthly basis and the principal maturing November 30, 2005. Quest was paid a fee of 380,000 common shares of the Company plus interest on the loan at 12%, in addition to the 100,000 common shares of Diamond Fields that were previously issued to Quest for providing a standby guarantee. The loan was secured by a general security agreement, a mortgage on the vessel mv Diamond Fields Discoverer, and guarantees by certain subsidiaries. Additionally, the Company pledged the shares of its wholly owned subsidiaries which own and operate the Company's mining vessel and its sea diamond concessions in Luderitz, Namibia. During the current year, the maturity date of the loan was extended from June 30, 2005 to November 30, 2005 for a fee of 975,000 free trading common shares of the Company.

On November 10, 2005, the Company paid in full and retired its loan to Quest Capital Corporation.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

8. NOTE PAYABLE

The Company has a loan supported by a promissory note payable to a company controlled by a major shareholder of the Company. The note bears interest at 6% per annum and is repayable in minimum monthly instalments of \$100,000 until maturity on July 15, 2006. Payments have been deferred on the loan, with the consent of the lender, since November 2004. At the Company's annual general meeting on November 16, 2005 the agreement to reduce the conversion price from \$0.60 to \$0.25 received shareholder approval. Accordingly, the noteholder is entitled to elect, at any time prior to the full repayment of the note, to convert all or any part of the outstanding principal of the note plus any accrued and unpaid interest into common shares of the Company at a conversion price of \$0.25 per share. At June 30, 2006, an aggregate of 9,893,502 common shares were issuable under this conversion privilege.

The note has been accounted for as a compound financial instrument comprising both a financial liability and an equity instrument. The allocation of the proceeds of the note between the two components was based on the estimated present value of the future payments of principal and interest on the note, discounted at the prevailing rate for a similar note without a conversion privilege, and the estimated fair value of the conversion privilege based on a Black-Scholes Model.

The financial liability component of the note is comprised of the following:

Original proceeds	\$ 2,349,875
Deduct portion allocated to the equity instrument (the deemed discount on issue)	(709,496)
Financial liability component at inception	1,640,379
Deduct:	
Principal repayments	(341,043)
Add:	
Accretion of the deemed discount on issue	709,496
Accrued interest	204,788
Balance of financial liability component	2,213,620
Deduct:	
Amount included in current liabilities	(2,213,620)
Long-term balance	\$ -

The face value of the note plus accrued and unpaid interest to June 30, 2006 amounted to \$2,213,620

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

8. NOTE PAYABLE (Continued)

The future principal repayments required on the note payable at June 30, 2006 are as follows:

2007	2,008,832
	\$ 2,008,832

This note was issued in settlement of a previous note payable that matured in December 2003. As a consequence, the equity portion of the former note payable of \$705,981 was transferred to contributed surplus on expiry of its conversion privilege.

9. INCOME TAXES

Future income tax assets and liabilities at June 30, 2006 and 2005 arise from the following:

	<u>2006</u>	<u>2005</u>
Future income tax assets		
Capital assets	\$ 11,819	\$ 31,484
Loss carry-forwards	6,605,409	6,033,455
Valuation allowance	(4,303,513)	(3,127,881)
Net future income tax assets	2,313,715	2,937,058
Future income tax liabilities		
Inventories	30,684	66,881
Mineral properties	3,498,265	4,407,552
Future income tax liabilities, net	\$ (1,215,234)	\$ (1,537,375)

A reconciliation of the provision for recovery of income taxes is as follows:

	<u>2006</u>	<u>2005</u>
Combined statutory tax rates	31.0%	35.6%
Provision for recovery of income taxes based on combined Canadian federal and provincial basic statutory rate	\$ (1,832,196)	\$ (1,345,017)
Add (deduct):		
Foreign tax rate differences	(503,207)	156,059
Non-deductible items	265,355	395,281
Tax benefits of losses not recognized	1,747,907	829,787
Future income taxes (recovery)/expense	\$ (322,141)	\$ 36,110

The Company has Canadian tax loss carry-forwards at June 30, 2006 of approximately \$8,379,000, which expire as to \$200,000 in 2007, \$478,000 in 2008, \$1,192,000 in 2009, \$1,173,000 in 2010, \$1,779,000 in 2014 \$1,637,000 in 2015 and \$1,920,000 in 2026. The Company also has foreign tax loss carry-forwards at June 30, 2006 of approximately \$760,000 in Namibia and \$57,000 in South Africa. The foreign loss carry-forwards can be carried forward indefinitely, subject to continuity of business tests.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

10. SHARE CAPITAL

Authorized share capital

The authorized capital stock of the Company comprises an unlimited number of common shares without par value.

Issued and outstanding share capital

Changes in the issued share capital since June 30, 2005 are as follows:

	Number of Shares	Amount
Balance, June 30, 2004	67,958,285	\$25,502,804
Shares issued for non-cash consideration		
Acquisition of interest in exploration property (Note 6)	100,000	57,175
Elimination of royalties (Note 6)	1,700,000	477,566
Standby fee, financing fee, and extension of loan maturity (Note 8)	1,455,000	506,681
Finders Fee	57,500	14,650
Shares issued for cash		
On exercise of stock options (including \$35,363 transferred from contributed surplus)	200,000	82,272
On exercise of compensation warrants	43,500	24,497
Private placement (net of issuing costs)	10,000,000	1,931,381
Share purchase plan	304,272	99,541
Balance, June 30, 2005	81,818,557	\$28,696,567
Shares issued for non-cash consideration		
Acquisition of interest in exploration property (Note 6)	100,000	23,795
Finders Fee	354,000	59,376
Severance Payment	165,000	30,193
Shares issued for cash		
Private placement (net of issuing costs)	30,483,676	4,855,280
Share purchase plan	251,924	44,563
Balance, June 30, 2006	113,173,157	33,709,774

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

10. SHARE CAPITAL (Continued)

Issued and outstanding share capital (continued)

Private placement

The Company completed a 30,483,676 unit private placement on November 7, 2005 at Cdn\$0.20 per unit for total gross proceeds of Cdn\$6,096,735. Each unit consists of one common share and one transferable share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share of the Company at a price of Cdn\$0.40 per share on or before June 2, 2008.

Finders fees in connection with the Private Placement totalled Cdn\$221,894 cash, 354,000 Units (on the same terms as the Units under the Private Placement), and 621,500 Compensation Warrants (on the same terms as the warrants forming part of the Units under the Private Placement).

Share transactions subsequent to year end

100,000 common shares with a fair value of \$10,778 (Cdn\$12,000) were issued as the second staged issuance as partial compensation for an option to acquire a working interest in certain exploration properties.

Employees' and Directors' Equity Incentive Plan

The Company has an Employees' and Directors' Equity Incentive Plan which includes three components: (a) a Share Option Plan; (b) a Share Bonus Plan; and (c) a Share Purchase Plan.

- (a) The Share Option Plan authorizes the Board of Directors of the Company to grant options for a maximum of 7,000,000 common shares, which vest over a period of three years unless otherwise determined by the Board, to directors, executive officers and employees of the Company to acquire common shares of the Company at a price based on the weighted average trading price of the common shares for the five days preceding the date of the grant. The Share Option Plan also provides that the directors, executive officers and employees may, upon the approval of the Board of Directors of the Company, convert their share options into stock appreciation rights.
- (b) The Share Bonus Plan permits the Board of Directors of the Company to authorize the issuance, from time to time, of a maximum of 250,000 common shares of the Company to employees of the Company and its affiliates.
- (c) The Share Purchase Plan entitles eligible employees of the Company to contribute up to 10% of his or her annual basic salary in semi-monthly instalments, with the Company making contributions equal to 100% of the employee's contribution on a quarterly basis. Each participant is, at the end of each calendar quarter during which he or she participates in the Share Purchase Plan, issued common shares of the Company equal to the aggregate amount contributed by the participant and the Company on the participant's behalf, based on the weighted average trading price of the common shares during the preceding five days. A maximum of 750,000 common shares may be issued pursuant to the Share Purchase Plan.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

10. SHARE CAPITAL (Continued)

Outstanding and exercisable stock options

A summary of share option activity and information concerning currently outstanding and exercisable options is as follows:

		Options Outstanding	
	Options Available for Grant	Number of Common Shares	Weighted Average Exercise Price Per Share (Expressed in Canadian dollars)
Balances, June 30, 2004	2,444,045	5,328,000	\$ 0.51
Options granted	(525,000)	525,000	0.55
Options exercised	-	(200,000)	0.31
Options cancelled	645,000	(645,000)	0.76
Share purchase plan shares issued	(304,272)	-	-
Balances, June 30, 2005	2,259,773	5,008,000	\$ 0.49
Options granted	(760,000)	760,000	0.27
Options exercised	-	-	-
Options cancelled	645,000	(645,000)	0.58
Share bonus plan shares issued	(165,000)	-	-
Share purchase plan shares issued	(251,924)	-	-
Balances, June 30, 2006	1,727,849	5,123,000	\$ 0.45

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

10. SHARE CAPITAL (Continued)

Outstanding and exercisable stock options (continued)

The following table summarizes information concerning outstanding and exercisable options at June 30, 2006:

Number Outstanding	Options Outstanding		Options Exercisable	
	Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
		(Expressed in Canadian dollars)		(Expressed in Canadian dollars)
195,000	0.70	\$ 0.66	195,000	\$ 0.66
540,000	1.58	0.43	540,000	0.43
50,000	1.85	0.31	50,000	0.31
1,810,000	1.97	0.32	1,810,000	0.32
755,000	2.23	0.32	566,250	0.32
50,000	2.26	0.70	37,500	0.70
50,000	2.42	0.91	37,500	0.91
150,000	2.48	0.80	112,500	0.80
50,000	2.60	0.56	37,500	0.56
463,000	2.95	0.57	347,250	0.57
300,000	3.44	0.43	300,000	0.43
25,000	3.68	0.54	12,500	0.54
685,000	4.17	0.27	171,250	0.27
5,123,000	3.04	0.45	4,217,250	0.45

At June 30, 2006, the U.S. dollar equivalent of the weighted average exercise price per share for the options outstanding and the options exercisable was \$0.45 and \$0.45, respectively.

The fair value of stock options granted in 2006 was \$128,487 (2005 \$87,015) with a weighted average of \$0.23 (Cdn\$0.27) (2005 - \$0.44; Cdn\$0.55) each. The Company used the Black-Scholes option pricing model to estimate the value of the options at each grant date, using the following weighted average assumptions:

	2006	2005
Dividend yield	None	None
Annual volatility	100.0 %	100.0 %
Risk-free interest rate	3.25 %	3.25 %
Expected life	5 years	5 years

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

10. SHARE CAPITAL (Continued)

Share purchase warrants

At June 30, 2006, the Company had non-transferable share purchase warrants outstanding as follows:

Number of warrants	Number of shares to be issued	Exercise Price	Issue Date	Maturity Date
13,500,000	13,500,000	Cdn\$1.00	November 28, 2003	November 28, 2006
5,000,000	5,000,000	Cdn\$0.40	June 3, 2005	June 2, 2008
30,483,676	30,483,676	Cdn\$0.40	November 7, 2005	June 2, 2008

If over a period of twenty consecutive trading days the weighted average closing price of the shares exceeds specific prices, then the Company may give notice in writing within thirty days of such an occurrence to the purchaser that the warrants shall expire on the 30th day following delivery of notice unless the warrants are exercised by the purchaser prior to such time.

Compensation warrants

At June 30, 2006, the company had 621,500 outstanding non-transferable compensation warrants entitling the holders to purchase 621,500 common shares at an exercise price of Cdn\$0.40 expiring June 2, 2008

11. CONTRIBUTED SURPLUS

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 2,041,205	\$ 1,762,233
Add (deduct) amounts arising from:		
Stock-based compensation		
Employees	81,302	229,670
Non-employees	-	84,665
Transfer to capital stock on exercise of stock options	-	(35,363)
Balance, end of year	<u>\$ 2,122,507</u>	<u>\$ 2,041,205</u>

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	<u>2006</u>	<u>2005</u>
(Increase) decrease in:		
Accounts receivable	\$ 18,978	\$ 77,822
Inventories	(210,735)	162,716
Prepaid expenses	(15,368)	(169,504)
Increase in:		
Accounts payable and accrued liabilities	270,024	(75,115)
	<u>\$ 62,899</u>	<u>\$ (4,081)</u>

Supplemental disclosure of non-cash investing and financing activities:

	<u>2006</u>	<u>2005</u>
Investing and financing activities:		
Shares issued for acquisition of interest in exploration property	\$ 23,795	\$ 57,175
Shares issued for elimination of royalties	-	477,566
Shares issued as standby fee, financing fee, and extension of loan maturity	-	506,681
Shares issued as finders fee	59,376	14,650

13. SEGMENTED INFORMATION

The Company's business consists of diamond operations from its Namibian concessions and exploration activities at its other mineral properties. During the year, the Company wrote off \$963,974 of exploration properties (see Note 6). Capital assets referred to below consist of the Company's mineral properties and its property, plant and equipment.

	<u>2006</u>	<u>2005</u>
Revenue for the year:		
Namibia	\$ 2,916,733	\$ 5,391,621
Capital assets at the end of the year:		
Namibia	\$ 9,936,808	\$ 10,551,312
South Africa	826	1,920
Greenland	-	894,447
Norway	-	-
Western Africa	987,033	482,479
Madagascar	-	11,564
Canada	673	47,723
	<u>\$ 10,925,340</u>	<u>\$ 11,989,445</u>

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2006 and 2005

(All amounts are expressed in U.S. dollars except where otherwise indicated)

14. FINANCIAL INSTRUMENTS

The carrying amounts of cash, accounts receivable, accounts payable and loan payable as at June 30, 2006 and 2005, approximate their fair values. The fair value of the financial liability portion of the note payable is not determinable, due to the non-arm's length nature of the transaction.

The Company operates internationally and as such is exposed to fluctuations in foreign exchange rates. The Company does not currently use financial instruments to limit its exposure to fluctuations in foreign exchange rates.

15. OTHER RELATED PARTY TRANSACTIONS

The following are other related party transactions that have not been disclosed elsewhere in these financial statements:

Accounts payable at June 30, 2006 include legal and other fees, including proxy solicitation costs, totalling \$183,000 (2005 - \$183,000) payable to a company controlled by a major shareholder of the Company.

During the year ended June 30, 2006 the Company was charged fees for consulting services of \$115,486 (2005 – nil) by a director of the Company. There were no outstanding amounts included in accounts payable and accrued liabilities at June 30, 2006 (2005 – nil) payable for such services.

The Company has a 24% interest in Diamond Tenders (Belgium) N.V. which is controlled by a company that is in turn controlled by a shareholder of the Company. During the year ended June 30 2006, the company paid marketing expenses amounting to \$73,860 to Diamond Tenders (Belgium) N.V.

16. COMMITMENTS

The Company rents office space under operating leases requiring rental payments of \$19,724 in 2007.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

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(All amounts are expressed in U.S. dollars except where otherwise indicated)

17. SUBSEQUENT EVENTS

Standby Guarantee Agreement for Proposed Rights Offering

The Company announced on September 1, 2006 that it had entered into a standby guarantee agreement with Spirit Resources SARL ("Spirit"), a company controlled by Jean-Raymond Boule, in relation to a proposed rights offering of the Company pursuant to which the Company will, subject to receipt of all necessary regulatory approvals, offer to distribute to the Company's shareholders on a pro rata basis and at no charge, transferable rights to purchase up to 28,000,559 common shares of the Company at a price of \$0.09 per share for gross proceeds of up to \$2,520,050 (representing up to approximately 24.7% of the Company's outstanding shares). Pursuant to the standby guarantee agreement, Spirit has agreed to participate in the proposed rights offering by purchasing up to \$2,000,000 of the offering through exercising its basic subscription privilege, additional subscription privilege and by purchasing additional shares on a stand-by commitment basis if necessary. Spirit has also advanced to the Company \$500,000 to be applied towards Spirit's participation in the rights offering. Under the agreement, Diamond Fields is entitled to employ such funds for its general corporate purposes and the advance will, pending closing of the rights offering, constitute a non-interest bearing loan from Spirit to the Company.

Joint Operations Agreement for Resource Development in ML111

Diamond Fields announced on August 18, 2006 that it signed a Joint Operation Agreement with a 100% owned subsidiary of Bonaparte Diamond Mines NL ("Bonaparte"), a company listed on the Australian Stock Exchange, for the continued development of marine diamond resources within Diamond Fields' ML 111 in Luderitz Bay, Namibia.

By issuing 1.5M Bonaparte shares to Diamond Fields (with an additional 0.5M shares to be issued at Bonaparte 's option) and completing a NAM\$3.0M (US\$0.45M) sampling program within six months in the seabed area designated under this agreement, Bonaparte can earn a 30% interest in any indicated category marine diamond resources defined by their program. All shares issued under this agreement are subject to a six-month hold period.

DIAMOND FIELDS INTERNATIONAL LTD.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(All amounts are expressed in U.S. dollars except where otherwise indicated)

INTRODUCTION

This management discussion and analysis of financial position and results of operations ("MD&A") of Diamond Fields International Ltd. ("Diamond Fields", or "the Company") should be read in conjunction with the audited consolidated financial statements of Diamond Fields International Ltd. and the notes thereto for the year ended June 30, 2006. The effective date of this MD&A is October 26, 2006. Additional information about Diamond Fields, including its annual information form, is available on SEDAR at www.sedar.com

FORWARD-LOOKING STATEMENTS

Certain statements contained herein are forward-looking, and are based on the opinions and estimates of management, or on opinions and estimates provided and accepted by management. These opinions and estimates include those that relate to geological and mining factors, commodity prices and marketing parameters used by management.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ, possibly significantly. When used in this document, the words such as "could", "plan", "estimate", "expect", "intend", "intent", "may", "potential", "should", and similar expressions are forward-looking statements. Although Diamond Fields believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. Readers are therefore cautioned not to place undue reliance on any forward-looking statements.

OVERVIEW

Diamond Fields is a Canadian public company listed on the Toronto Stock Exchange. The Company is active in diamond mining and mineral exploration.

International exploration activities are currently focused primarily on the Company's diamond and gold properties in Liberia after Inco Ltd. advised Diamond Fields that it did not plan further work on the Company's Ammassalik nickel project in East Greenland. Production on Diamond Fields' Namibian marine concessions utilising its own vessel mv DF Discoverer yielded 17,251 carats until the suspension of operations in June 2006 for the vessel's 2.5 yearly statutory dry dock inspection. Of this production 15,688 carats were sold during the financial year (average price received per carat \$185.45), with the balance of 1,563 carats being held in inventory at year end, which was subsequently sold (average price received per carat \$181.38). In addition a further 52 carats of small stones recovered from shallow water diving operations in the previous financial year were sold for a consideration of \$7,371. Total revenue generated in the 2006 financial year amounted to \$2,916,733. Operating costs during the 2006 financial year were \$4,667,466 resulting in an operating loss of \$2,093,586.

The Company is in the process of raising additional financing required to continue its operations in the normal course of business (see "Capital Resources and Liquidity).

DIAMOND FIELDS INTERNATIONAL LTD.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(All amounts are expressed in U.S. dollars except where otherwise indicated)

RESULTS OF OPERATIONS

Marine Mining and Exploration Activities

Mining Vessel DF Discoverer

The vessel operated in the Marshall Fork deposits of ML111 until December 2005 when the Company's marine diamond project in Namibia moved to a new phase of resource development in the Diaz Reef area. The completed program in the Diaz Reef section of DFI's licenses recovered diamonds of larger average stone size than Marshall Fork and the grade of the mined area was estimated to be roughly double the previously announced grade for the Company's resource in this area. The successful trenching program in the Elephant Basin and Reef Edge features of Diaz Reef lead to the mv DF Discoverer returning to full mining mode in February 2006. The deposit found in Elephant Basin is still open to the west and south while the deposit found in Reef Edge is open to the north. Further development work is planned to expand the area of high grade material pre-mining.

Production was negatively affected by down time mainly associated with plant and equipment breakdowns but was also affected by weather delays and port calls for refuelling. Mechanical breakdowns resulted in the vessel working for extended periods with only one of its two airlifts operational.

As announced on May 16, 2006 the vessel suspended operations in early June 2006 and sailed for Cape Town for its statutory dry docking and a maintenance and refit program. Apart from the statutory aspects of this port call the work program has been designed with the objective of improving mining equipment reliability and efficiency. The dry docking has been completed and other scheduled work is in progress. The overall program was delayed as a result of late entry into the dry dock due to time overruns with other vessels previously occupying the dock, poor weather with severe winter storms affecting the region, and in finalizing arrangements for the Company's financing. The vessel is now expected to resume operations in October, 2006.

Updated Technical Report on Sea Diamonds Project

The Company has filed with applicable Canadian securities regulators through the SEDAR website an updated technical report dated March 30, 2006 entitled "The Marine Alluvial Diamond Properties ML 111, EPL 1607 A & B and ML 32, Lüderitz, Namibia" prepared by R.H. De Decker of De Decker and Associates Consulting Services. The technical report was prepared under National Instrument 43-101 and relates to the Company's marine alluvial diamond mining and exploration properties off the coast of Lüderitz, Namibia.

The updated report comments upon mining undertaken in Mining Licence ML111 since November 2002. Such mining operations were undertaken by contractors, joint ventures and with the Company's own vessel. Diamond Fields acquired its vessel in late 2004 and the report comments on commercial and technical aspects specific to this vessel.

DIAMOND FIELDS INTERNATIONAL LTD.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(All amounts are expressed in U.S. dollars except where otherwise indicated)

Joint Operations Agreement for Resource Development in ML111

Diamond Fields announced on August 18, 2006 that it signed a Joint Operation Agreement with a 100% owned subsidiary of Bonaparte Diamond Mines NL ("Bonaparte"), a company listed on the Australian Stock Exchange, for the continued development of marine diamond resources within Diamond Fields' ML 111 in Luderitz Bay, Namibia.

By issuing 1.5M Bonaparte shares to Diamond Fields and completing a NAM\$3.0M (US\$0.45M) sampling program within six months in the 1,200,000 m² seabed area designated under this agreement Bonaparte can earn a 30% interest in any indicated category marine diamond resources (JORC and NI 43-101 code compliant) defined by their program. The agreement includes an option for Bonaparte to explore an additional 400,000 m² area by issuing an additional 0.5M shares to DFI. All shares issued under this agreement are subject to a six month hold period. The at-sea work is anticipated to occur over a one month period beginning in September 2006, utilizing a combination of Bonaparte's patented BoSS seabed sampling tool and DeBeers patented mega drill technology deployed from the chartered DeBeers vessel MV Douglas Bay. This at-sea program replaces a previously announced Joint Operation planned for EPL1607B which has been placed on hold pending renewal of that license by Namibian authorities.

The agreement between the respective companies' wholly owned Namibian operating subsidiaries allows Bonaparte's subsidiary access to Diaz Prospect 1 (DP1), and at Bonaparte's option Diaz Prospect 2 (DP2) within the Reef Edge marine diamond deposit for the purposes of sampling to define indicated category marine diamond resources. Diamond Fields' reconnaissance work has identified diamonds in the 1,600,000 m² area, but sampling density is not sufficient to complete a resource calculation to the indicated category. Diamond Fields will retain a portion of the diamonds recovered by the BoSS sampling program in DP1 and DP2 based on total stones recovered and stone size. Indicated resources defined under this agreement that are of sufficient grade will be included in the Company's mine plans for the mv DF Discoverer with agreed mining expenses and diamonds recovered to be shared on the basis of 70% Diamond Fields; 30% Bonaparte. Should Diamond Fields opt not to mine any indicated resource identified under this agreement Bonaparte will have the option to mine for its own account and pay the Company a 14% royalty on gross recoveries. All diamonds recovered will be subject to Diamond Fields marketing agreement with Diamond Tenders of Belgium.

Exploration Projects

Liberia Exploration Properties

As announced in previous public disclosures, Diamond Fields entered into an option agreement in August 2004 with Liberia-based Ducor Minerals Inc. ("Ducor"), pursuant to which it may earn an interest in Ducor's rights held under two mineral exploration agreements between Ducor and the Republic of Liberia. The Gbapolu (Grand Cape) property is prospective for diamonds and gold while the Grand Gedeh property is a gold prospect. Both properties are roughly equal in size covering a total area of approximately 1,800 km². The Company may earn 70% of Ducor's interest by issuing to Ducor 1,000,000 shares in five annual installments of 200,000 shares each (300,000 shares issued to date and the Company has paid \$90,000 in lieu of 200,000 shares), and by spending US\$2,000,000 on exploration before August 2008. Ducor has the right to request \$30,000 in lieu of one-half of each annual stock

DIAMOND FIELDS INTERNATIONAL LTD.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(All amounts are expressed in U.S. dollars except where otherwise indicated)

issue, and Diamond Fields has the right to pay \$60,000 in lieu of one-half of each annual stock issue. The Company may withdraw from the project at any time.

Nine kimberlite targets have been generated on the Grand Cape property with 75% of the reconnaissance sampling completed. Two targets are pipe-like bodies; three are inferred dyke trends in excess of 500 m long the source kimberlite for the remaining indicator mineral anomalies has as yet not been identified pending completion of reconnaissance sampling. Ground magnetic anomalies are present, coincident with interpreted kimberlite pipes and dykes on the three targets surveyed so far. The Company is investigating the possibility of mobilizing a diamond recovery plant to Liberia to facilitate bulk sampling of kimberlites for grade. One kilometer long by 500m wide sampling grids over high grade gold anomalies have been completed on both Grand Cape and Grand Gedeh properties.

The Company has advanced to mapping, grid sampling, and pitting(1) on five areas, with ground geophysics completed on three of these. Magnetic response indicative of kimberlite is present on all three of these, confirming the presence of two pipe-like bodies on Grid 4 and a dyke trend in excess of 500m long on Grid 3. Macro-diamonds (0.05 cts, 0.08 cts and 0.22 cts) have been recovered during grid sampling and pitting of a fourth 3 km long dyke target on Grid 5.

Geophysical response of the pipes on Grid 4, sampled at 25m intervals along the line and 50m between lines, indicated discreet non-linear anomalies. The area of the pipe like bodies could not be confirmed by the magnetics, but they are inferred from the size of the swamps within which they occur to be approximately 3 hectares and 1 hectare, respectively. The extensive (>500m) dyke trend on Grid 3 was surveyed at 10m intervals across strike, with response indicating widths of the anomaly of 5m or more. Alternatively, there are a series of smaller parallel striking dykes within a 5m wide or greater zone. The dyke continues off the geophysical grid in both northeast and southwest directions. On Grid 5, two parallel dyke trends about 150m apart extend up to three kilometers along strike.

These targets will require further investigation with geophysics (EM and/or ground penetrating radar) and drilling to confirm dimensions. A comprehensive test of grade by bulk sampling these targets is planned after pitting on one pipe target failed to produce diamonds. The acquisition of a small diamond recovery plant is being considered to facilitate analysis of bulk samples of the kimberlitic material for grade under secure conditions.

Artisinal mining of high grade quartz veins assaying 13 grams/ton gold across 1.5m vein width on the Grand Cape property at Henry Town, and visible gold in stream sediment samples(2) from the Grand Gedeh property adjacent to the Cestos Shear Zone prompted the Company to proceed with soil sampling and mapping grids over these targets to explore along and across strike extensions of this mineralization. Soil sample grids have been completed over these targets with the collection of over 300 samples. These samples are being dried and screened at the Company's heavy mineral laboratory in Monrovia before shipment for gold analysis by Anglo American Research Laboratories in Johannesburg. Results are expected by the end of September 2006. Further work on these targets will include trenching to determine widths and drilling if warranted to explore for along strike continuity of grade and thickness.

Madagascar nickel exploration program

The Company has extended the evaluation period of the exclusive agreement which grants Diamond Fields the right to acquire ownership of the Valozoro lateritic nickel deposit in Madagascar.

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Discontinued Projects

On December 28, 2005 the Company reported that Inco Ltd. advised Diamond Fields that it did not plan further work on the Company's Ammassalik nickel project in East Greenland and thereby retained no interest in the land package complied by Diamond Fields. Previously, Diamond Fields, Inco, and Nuna entered into agreements whereby Inco may have earned an interest in exploration licenses held by the Company or optioned by Diamond Fields from Nuna, on Ammassilik Island in East Greenland. A provision for impairment of associated accumulated exploration costs has been recorded in the current period.

Through its indirect wholly owned subsidiary, Diamond Fields (South Africa) (Pty) Ltd., the Company owned deep-sea diamond concessions off the west coast of South Africa, which expired in the current year.

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SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the years ended June 30, 2006, 2005 and 2004:

	2006	2005	2004
Total revenues	\$ 2,916,733	\$ 5,391,621	\$ 1,294,182
Net loss	(6,190,160)	(3,814,248)	(3,618,601)
Net loss per share (basic and diluted)	(0.06)	(0.06)	(0.06)
Cash	286,887	1,351,146	2,401,051
Total assets	11,803,173	14,028,783	12,795,165
Working capital (deficiency) ¹	(2,243,929)	(607,573)	1,932,429
Total long term financial liabilities	4,336,996	5,466,955	3,891,825

1. See "Capital Resources and Liquidity"

All revenue for the year ended June 30, 2006 resulted from the sale of diamonds held in inventory or recovered during operations. A total of 15,739 carats were sold at an average price of approximately \$185 per carat generating revenue of \$2,916,733. Comparatively, the Company sold 26,250 carats in the 2005 financial year at an average price of \$205 per carat generating operating revenue of \$5,391,621. Production, royalty and selling expenses associated with the sale of inventory totaled \$5,010,319; whereas, these operating costs for the same period in 2005 were \$2,529,539. The higher costs resulted from operating the Company's own vessel for the entire period compared to the previous year's 4 month project with Samicor in which the Company contributed approximately 50% of the operating costs. The Company generated an operating loss of \$2,093,586 for the year ended June 30, 2006 compared with an operating surplus of \$2,862,082 for fiscal 2005.

The Company incurred general and administrative expenses of \$3,507,703 during the year ended June 30, 2006 compared to \$3,556,231 during 2005. Financing fees and interest increased due to the full amortisation of deferred financing fees regarding the loan with Quest Capital Corporation and the Company's restructuring of its repayments on the note payable. Consulting and Investor relations expenses decreased. Professional fees increased due to the legal costs associated with the proposed Moydow merger. Salaries and benefits decreased because of a significant decrease in the number of administrative staff after the relocation of the companies head office in March 2006. Stock based compensation decreased significantly as a result of less options granted in 2006, a number of options that has expired or has been cancelled, as well as options granted to previous of employees in the Canadian office only vesting up to 6 months after severance of their employment contracts. During the current year the Company recorded a provision for impairment on certain of its exploration properties (see Note 6 to the financial statements).

Net loss for the year ended June 30, 2006 was \$6,190,160 or \$0.06 per share, compared with a net loss of \$3,814,248 or \$0.06 per share in 2005.

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SELECTED QUARTERLY DATA

The following table sets forth selected financial information for the eight most recently completed quarters:

	30-June-06	31-Mar-06	31-Dec-05	30-Sept-05	30-June-05	31-Mar-05 (Restated)	31-Dec-04	30-Sept-04
Total Revenues	809,334	675,488	681,770	750,141	Nil	Nil	1,014,846	4,376,775
Net Earnings (Loss)	(1,294,097)	(2,001,957)	(1,752,580)	(1,141,526)	(2,048,849)	(2,127,571) ¹	(459,987)	822,159
Net Earnings (Loss) per Share (basic and diluted)	(0.01)	(0.02)	(0.02)	(0.01)	(0.03)	(0.03) ¹	(0.01)	0.01

1. The net loss for the three month period ended March 31, 2005 has been restated to reflect an increase of \$770,768 for expenses that were previously capitalized to the mining vessel and plant equipment. For the three month period ended March 31, 2005, the previously reported net loss of \$1,356,803 increased by \$770,768 and the previously reported net loss per share (basic and diluted) of \$0.02 per share increased by \$0.01 per share.

Production on the Company's marine concessions under joint operations with Samicor was suspended October 2004 and recommenced using the Company's mining vessel mv Diamond Fields Discoverer in June of 2005. Consequently, there were diamond sales only during the first two quarters of fiscal 2005.

CAPITAL RESOURCES AND LIQUIDITY

At June 30, 2006, the Company had a working capital deficit of \$2,243,929 including cash of \$286,887 compared with a working capital deficit of \$607,753, including cash of \$1,351,146 at June 30, 2005. The decrease in working capital at June 30, 2006 is primarily a result of general and administrative costs, exploration activities, cash used to finance the operating loss of the mining vessel DF Discoverer.

The Company plans efforts to raise additional financing to meet its debt repayment obligations, continue its exploration activities, maintain its exploration properties, and operate its newly-acquired mining vessel. There can be no assurance as to the success of future financing activities necessary to meet its debt obligations and operating requirements.

The June 30, 2006 consolidated financial statements for Diamond Fields International Ltd. have been prepared in accordance with generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets, discharge its liabilities and meet its future obligations in the normal course of business. While these financial statements have been prepared on the basis of accounting principles applicable to a going concern several adverse conditions and events cast substantial doubt upon the validity of this assumption. On May 16, 2006 the Company announced that it was considering alternatives for securing additional financing required for the vessel's dry docking, continuing its exploration activities, and maintaining its exploration properties. On September 1, 2006 the Company announced that it has entered into a standby guarantee agreement with Spirit Resources SARL ("Spirit") in relation to a proposed rights offering of the Company pursuant to which the Company will, subject to receipt of all necessary regulatory approvals, offer to distribute to the Company's shareholders on a pro rata basis and at no charge, transferable rights to purchase up to 28,000,559

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common shares of the Company at a price of \$0.09 per share for gross proceeds of up to 2,520,050 (representing up to approximately 24.7% of the Company's outstanding shares). Pursuant to the standby guarantee agreement, Spirit has agreed to participate in the proposed rights offering by purchasing up to \$2,000,000 of the offering through exercising its basic subscription privilege, additional subscription privilege and by purchasing additional shares on a stand-by commitment basis if necessary. Spirit has also advanced to the Company \$500,000 to be applied towards Spirit's participation in the rights offering. Under the agreement, DFI is entitled to employ such funds for its general corporate purposes and the advance will, pending closing of the rights offering, constitute a non-interest bearing loan from Spirit to DFI.

Spirit is controlled by Jean-Raymond Boule, who is the Company's largest shareholder currently beneficially owning, directly or indirectly, approximately 16% of the Company's issued and outstanding common shares. None of Spirit, Jean-Raymond Boule or any affiliated company will receive any consideration from DFI for Spirit's covenant to participate in the rights offering pursuant to the standby guarantee agreement. The standby guarantee agreement has been accepted by the Toronto Stock Exchange.

Further details on the proposed rights offering will be provided by the Company in due course and will be contained in a rights offering circular to be mailed to shareholders as of a record date to be set by DFI's Board of Directors. The rights offering remains subject to applicable Canadian securities laws and stock exchange rules, including completion and approval of all necessary filings with applicable Canadian securities regulatory authorities and the Toronto Stock Exchange.

The Company anticipates that the proceeds of the rights offering will be used for completion of the Company's mining vessel dry docking, upgrade and maintenance program, continuation of the Liberian diamond and gold exploration projects and for general working capital and administrative expenses.

There can be no assurance as to the success of the financing activities necessary to meet these obligations and operating requirements. Accordingly, the Company's ability to continue its operations in the normal course of business is dependent upon its ability to obtain additional financing, to receive the continued support from its noteholder and other creditors and, ultimately, to obtain profitable operations. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values of assets and liabilities should the Company be unable to continue as a going concern.

The following table sets forth the Company's contractual obligations:

	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Loan payable	-	-	-	-	-
Note payable	2,213,620	-	-	-	2,213,620
Operating leases	19,724	-	-	-	19,724
Exploration properties leases	90,674	272,022	-	-	326,696
Total contractual obligations	2,324,018	272,022	-	-	2,596,040

On October 24, 2005, the Company announced that it had negotiated a private placement with investors for a total of Cdn\$5,000,000 by the issuance of 25,000,000 units ("Units") at a price of Cdn\$0.20 per

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Unit, each Unit consisting of one common share and one transferable share purchase warrant, each warrant entitling the holder to purchase one additional common share, exercisable on or before June 2, 2008 at an exercise price of Cdn\$0.40 per share. On November 7, 2005, the Company announced that the amount of the private placement was revised to Cdn\$6,096,735 consisting of 30,483,676 Units, which was accepted for filing by the Toronto Stock Exchange on November 4, 2005, and that the first tranche of Cdn\$4,878,735 consisting of 24,393,676 Units had been released to the Company. The second tranche of 6,090,000 Units for proceeds of Cdn\$1,218,000 was released upon receipt of requisite shareholder approvals at the Company's annual general meeting on November 16, 2005.

Finders fees in connection with the Private Placement totalled Cdn\$221,894 cash, 354,000 Units (on the same terms as the Units under the Private Placement), and 621,500 Compensation Warrants (on the same terms as the warrants forming part of the Units under the Private Placement).

Funding for the purchase of mv DF Discoverer and applicable taxes was provided under a secured loan from Quest Capital Corp. ("Quest") in the amount of Cdn\$1,950,000. Quest Capital Corp. was paid a fee of 380,000 common shares of Diamond Fields plus interest for the loan, in addition to the 100,000 common shares of Diamond Fields that were previously issued to it for providing a standby guarantee. Quest also received 975,000 free-trading common shares of Diamond Fields on June 16, 2005 in consideration for Quest's agreement to extend the maturity date of its loan to November 30, 2005. This loan was paid in full and retired on November 10, 2005.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The Company has a loan supported by a promissory note payable to a company controlled by a major shareholder of the Company. The balance due, including accrued interest to June 30, 2006 amounted to \$2,213,620. The note bears interest at 6% per annum and is repayable in minimum monthly instalments of \$100,000 until maturity on July 15, 2006. The noteholder is entitled to elect, at any time prior to the full repayment of the note, to convert all or any part of the outstanding principal of the note plus any accrued and unpaid interest into common shares of the Company at a conversion price of Cdn\$0.25 per share. At June 30, 2006 an aggregate of 9,893,502 common shares were issuable under this conversion privilege. Payments have been deferred on this loan with the consent of the lender since November 2004. Diamond Fields agreed with Spirit Resources SARL ("Spirit"), a company controlled by Jean-Raymond Boule, to extend the date on which payments are due to resume on its loan to Diamond Fields unless Diamond Fields completes a further financing of \$4.5 million or more. In consideration for this deferral of payments on this debt, the Company has, and approved by shareholders on November 16, 2005, reduced the conversion price on which the debt is convertible into shares of Diamond Fields from Cdn\$0.60 to Cdn\$0.25.

In connection with the Private Placement (see CAPITAL RESOURCES AND LIQUIDITY), the Second Tranche included the indirect subscription of a total of 2,500,000 Units by Jean-Raymond Boule, a major shareholder and insider of the Company who, before giving effect to the Private Placement, held directly or indirectly approximately 19.5% of the Company's issued and outstanding common shares and approximately 2.70% of the Company's outstanding warrants. After giving effect to the Private Placement in full, Mr. Boule holds directly or indirectly approximately 16.4% of the Company's issued and outstanding common shares and approximately 6.08% of the Company's outstanding warrants. The portion of the Private Placement subscribed to by Mr. Boule is considered to be a "related party

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transaction" as defined under Ontario Securities Commission Rule 61- 501 (the "Rule"). In connection with Mr. Boule's subscription, Diamond Fields relied on the exemptions from the formal valuation and minority shareholder approval requirements of the Rule on the basis that the fair market value of the securities issued to Mr. Boule is less than 25% of the Company's market capitalization, as determined by all of the directors of the Company in accordance with the Rule.

Accounts payable at June 30, 2006 include legal and other fees, including proxy solicitation costs, totalling \$183,000 payable to a company controlled by a major shareholder of the Company. During the year ended June 30, 2006 the Company was charged fees for consulting services of \$115,486 by a director of the Company. There were no outstanding amounts included in accounts payable and accrued liabilities at June 30, 2006 payable for such services.

The Company has a 24% interest in Diamond Tenders (Belgium) N.V. which is controlled by a company that is in turn controlled by a shareholder of the Company. During the year ended June 30 2006, the company paid marketing expenses amounting to \$73,860 to Diamond Tenders (Belgium) N.V.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires companies to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgements about matters that are inherently uncertain.

The following policies are considered to be the critical accounting policies as they involve the use of significant estimates:

Mineral Properties

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the estimated indicated resources (probable diamond reserves), and the estimated future operating results and net cash flows from the Company's mineral properties. The estimation of reserves and resources is inherently uncertain and involves subjective judgements about many relevant factors. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgements used in engineering and geological interpretation, which may prove to be unreliable. There can be no assurance that estimates of indicated mineral resources (probable diamond reserves) will be accurate or that such mineral resources can be mined or processed profitably. Estimated indicated resources (probable diamond reserves) for the Company's Namibian marine diamond concessions are based on the September 2000 feasibility study by AGRA Simons Ltd., which contemplated different mining technology than that in use by or available to the company.

On the commencement of commercial production, the net capitalized costs are charged to operations on a unit-of-production basis, by property, using the estimated indicated resources (probable diamond reserves) as the depletion base.

The Company carries its mineral properties at cost less a provision for impairment. The Company defers exploration and development costs, which are related to specific projects until the commercial feasibility

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of the project is determinable. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects. The costs of each property and related expenditures will be amortized over the economic life of the property on a units-of-production basis. Costs are charged to operations when a property is abandoned or when impairment in value that is other than temporary has been determined.

The Company undertakes a review of the carrying values of mineral properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value. In undertaking this review, management of the Company is required to make significant estimates of, among other things, geological potential, the estimated indicated resources (probable diamond reserves), future production and sales volume, unit sales prices, future operating and capital costs and reclamation costs to the end of the project's life. These estimates are subject to various risks and uncertainties, which may ultimately have an affect on the expected recoverability of the carrying values of the mining properties and related expenditures.

Note Payable

The note has been accounted for as a compound financial instrument comprising both a financial liability and an equity instrument. The allocation of the proceeds of the note between the two components was based on the estimated present value of the future payments of principal and interest on the note, discounted at the prevailing rate for a similar note without a conversion privilege, and the estimated fair value of the conversion privilege based on a Black-Scholes Model.

Stock-based Compensation

The Company accounts for its grants under the Employees' and Directors' Equity Incentive Plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a graded basis over the vesting period. The Company used the Black-Scholes option pricing model to estimate the value of the options granted.

Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, generally using the enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

FINANCIAL INSTRUMENTS

The carrying amounts of cash, accounts receivable, accounts payable and loan payable as at June 30, 2006 and 2005, approximate their fair values. The fair value of the financial liability portion of the note payable is not determinable, due to the non-arm's length nature of these transactions.

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The Company operates internationally and as such is exposed to fluctuations in foreign exchange rates. The Company does not currently use financial instruments to limit its exposure to fluctuations in foreign exchange rates.

RISKS

The Company's properties and operations are subject to certain risks including but not limited to government regulations related to mining, mineral prices and currency fluctuations, competition, receipts of permits and approval from government authorities, operating hazards and other risks inherent to mineral exploration, development and mining operations.

Political Risks

The Issuer strives to minimize political risk by monitoring events in countries where it operates or where it considers operating, and by complying with local laws and regulations. The Issuer operates and conducts exploration activities in countries which have experienced civil unrest and/or civil warfare in recent years. It attempts to minimize the risks inherent in conducting operations and exploration in frontier areas by monitoring local conditions and avoiding high risk areas. The Issuer's employees and contractors are strongly encouraged to avoid areas where risk of violence or other hazards may be present.

Additional financing Requirement

The Issuer's ability to continue its activities depends on the Issuer obtaining additional financing. The Issuer plans efforts to raise additional financing to meet its debt repayment obligations, continue its exploration activities, maintain its exploration properties, and operate its mining vessel. There can be no assurance as to the success of future financing activities necessary to meet its debt obligations and operating requirements.

Estimates of reserves and resources are inherently uncertain

Sea diamond deposits are alluvial deposits located on the ocean floor. These deposits are difficult to sample because of their remote nature, variable terrain and the location of diamonds in irregular gravel beds lying above and within crevices and potholes in the bedrock. As a result, there are no standard sampling tools and resource estimation practices employed for these types of deposits. The sampling programs for the Sea Diamonds Project have used tools not specifically designed for the geological environment found in the concession areas.

There is a degree of uncertainty attributable to the calculation of reserves, resources and corresponding grades being mined or dedicated to future production. Until reserves or resources are actually mined and processed, the quantity of reserves or resources and grades must be considered as estimates only. In addition, the quantity of reserves or resources may vary depending on diamond prices, operating costs and mining efficiency. Any material change in the quantity of reserves, resources or grade may affect the economic viability of the Sea Diamonds Project. Mining tools currently available to the Issuer differ from those used for calculating indicated resources (probable reserves) in the 2000 feasibility study.

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Exploration activities will not necessarily result in the discovery of commercially recoverable quantities of targeted minerals (currently diamonds, gold and nickel)

Mineral exploration activities involve a high degree of risk and uncertainty. There is no assurance that continued exploration of the Issuer's concessions will result in any discovery of commercial quantities of diamonds and / or nickel over and above those previously identified. Even if commercial quantities of diamonds and / or nickel are discovered, economic recovery is dependent upon a number of factors, including the particular attributes of the deposit, such as terrain, size and grade, diamond prices and government regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Most of these factors are beyond the control of the Issuer.

Offshore diamond mining involves significant risks

The business of offshore diamond mining is subject to a variety of risks such as accidents, extreme marine and weather conditions, natural disasters, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences, against which the Issuer cannot, or may elect not to, insure, may result in damage to or destruction of mining equipment and infrastructure, injuries and loss of life, environmental damage, delayed production, increased production costs and possible legal liability to third parties, any or all of which may have a material adverse effect on the Issuer's financial position. The mining and processing systems and the vessels to be used in the Sea Diamonds Project are to be at sea year round, and weather conditions will inevitably have an effect on operations. Other projects of this type have succeeded, but some have experienced problems during operations and cost overruns. Technical problems may affect the operations of the Sea Diamonds Project which may adversely affect profitability.

The offshore diamond mining technology selected by the Issuer may not be as efficient as expected

Geological conditions in those areas of the concession in which sampling activities were carried out contributed to a suspected under sampling bias by the sampling tool and could adversely affect the ability of the mining tool to recover all of the diamonds which are actually present on the sea floor. The extent to which this will occur cannot be quantified at this time and will only be known as mining progresses. Even if a sampling bias is confirmed, there is no assurance that any additional diamonds can be entirely recovered.

Although the Issuer's mining and exploration concessions are in good standing, there can be no assurance that circumstances will not change

The Issuer has investigated its rights to explore and exploit its concessions and, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that applicable governments will not revoke, or significantly alter the conditions of, the applicable exploration and mining authorizations and that such exploration and mining authorizations will not be challenged or impugned by third parties. Mining and prospecting licenses may be revoked by the applicable government authorities for failure to perform the obligations thereunder. Licenses must be renewed periodically. The renewal process involves a review of the license holder's performance by government authorities.

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Directors and officers of the Issuer may have conflicts of interest

Certain of the directors of the Issuer are directors or officers of, or have shareholdings in, other mineral resource companies. If, and to the extent that, such other companies participate in business ventures in which the Issuer also participates, those directors may have a conflict of interest. These other mineral resource companies may also compete with the Issuer for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director who has such a conflict will disclose the conflict to a meeting of the directors of the Issuer and will refrain from participating in any Board decisions concerning the matter giving rise to the conflict. In appropriate circumstances, the Issuer will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict.

In accordance with the laws of the Yukon Territory, the directors of the Issuer are required to act honestly, in good faith and in the best interests of the Issuer. The Issuer's directors and senior officers have advised the Issuer that they intend to bring forward to the Issuer in priority to others, new opportunities that become available to them for the acquisition of, or participation in, diamond properties in the countries in which the Issuer is presently active as described in this Annual Information Form, for the consideration of the Issuer's Board of Directors. In such event, the Issuer will apply the procedures and mechanisms set forth above. In determining whether or not the Issuer will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Issuer, the degree of risk to which the Issuer may be exposed and its financial position at that time.

Exchange controls may restrict the Issuer's ability to repatriate earnings

Namibia is part of the South African Rand Common Monetary Area ("CMA"). Exchange controls in the CMA require that dividends, loans, repayment of loans and payment of all invoices to parties outside the CMA by companies registered in the CMA require prior approval. The controls, as they relate to Namibia, are applied by the Bank of Namibia. There can be no assurance that the Issuer will obtain the requisite approvals in the future to repay loans or pay invoices to parties outside the CMA, including companies within the Issuer's corporate group not resident in the CMA. Thus exchange controls may restrict the Issuer from repatriating funds and using those funds for other purposes.

Profitability may be affected by fluctuations in the market price of gem quality diamonds

Diamond production from the Sea Diamonds Project has been, and is anticipated to be, 95% gem quality. The diamond market is dominated by DeBeers Consolidated Mines Ltd./DeBeers Centenary AG Group ("De Beers") and their policies can have significant impacts on the prices of diamonds. There is no assurance that prices received in the market place will be at the same level as the prices used in the financial analyses of the Issuer's feasibility study of the Sea Diamonds Project. The United States currently accounts for approximately half of worldwide consumption of diamond jewellery by value. There can be no assurance that an economic recession in the United States, a global recession, increased supplies, or the actions of De Beers authorities will not adversely affect the prices the Issuer will receive for its diamonds and its revenues from mining operations.

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In Namibia, a 10% royalty is levied on rough and uncut diamonds mined and sold, exported or otherwise disposed of. The royalty is calculated on the Namibian government valuator's estimate of the market value of the stones.

Diamond prices in international markets may also be affected by concerns of diamond origin. So-called "conflict diamonds" that originate in countries involved in civil war and that are alleged to fund the activities of warring factions in these countries tend to bring the international diamond market into disrepute. Although none of the Issuer's production includes "conflict diamonds", any proliferation of "conflict diamonds" in international markets could have an adverse effect on demand and prices, thereby hurting the Issuer's profitability.

Government regulations in foreign countries may limit the Issuer's activities and harm its business

The concessions comprising the Sea Diamonds Project are located off the coast of Namibia and are subject to the laws and regulations of Namibia. Although mining in Namibia has a long history and has never been adversely impacted by unreasonable or arbitrary government action, there can be no assurance that the Issuer's business, operations and affairs will not be materially adversely affected by changes to, or arbitrary application of, Namibian laws and regulations or changes in the political and economic status of Namibia.

Operations carried on by the Issuer in respect of the Sea Diamonds Project will be subject to government legislation, policies and controls relating to prospecting, development, production, importing and exporting of minerals, concession tenure, exchange controls, mining taxes, labour standards and environmental protection. There can be no assurance that such legislation, policies and controls will not have a material adverse effect on the business, operations and affairs of the Issuer.

Complying with environmental regulatory requirements could be costly and could adversely affect the profitability of the Sea Diamonds Project

All aspects of the Issuer's offshore diamond mining operations are subject to environmental regulation. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Although the Issuer's environmental management plan for the Sea Diamonds Project has been approved by the Namibian government, there is no assurance that future changes in environmental regulation will not adversely affect the Sea Diamonds Project. Environmental hazards may exist on the Issuer's concessions which are presently unknown to the Issuer and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

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Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Issuer and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

OUTSTANDING SHARE DATA

At October 26, 2006, a total of 113,273,157 common shares of the Company were outstanding. Stock options outstanding at October 26, 2006 totalled 4,853,000 with exercise prices ranging from Cdn\$0.14 to Cdn\$0.91 per share and expiry dates between March 12, 2007 to July 5, 2011. Warrants outstanding at October 26, 2006 totalled 48,983,676 with exercise prices ranging from Cdn\$0.40 to Cdn\$1.00 per share and expiry dates between November 26, 2006 and June 2, 2008. Each such warrant is exercisable at the applicable exercise price to purchase one common share of Diamond Fields on or before the applicable expiry date.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, our Policy on Corporate Disclosure and Confidentiality of Information, our Code of Integrity and Ethics, our Insider Trading or Dealing & Stock Tipping Policy Overview, our Whistleblower Policy, the effective functioning of our Audit Committee and procedures in place to systematically identify matters warranting consideration of disclosure by the Audit Committee.

As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under applicable Canadian securities laws, is recorded, processed, summarized and reported within time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In conducting its evaluation of the effectiveness of the Company's disclosure controls and procedures, management acknowledged the factors causing the delay in filing its annual financial statements for its year ended June 30, 2006 (which factors are discussed under "Internal Control Over Financial Reporting" below), and concluded that the Company's disclosure controls and procedures in place remained effective

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as such factors are believed to be temporary in nature and relate primarily to matters outside the control of the Company.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Item 4(c) of Form 52-109F1 *Certification of Annual Filings* requires the Company's CEO and CFO to certify that they have designed the Company's internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. While the Company's certifying officers have concluded that they are able to make those certifications as required by applicable Canadian securities laws, management of the Company wishes to provide additional disclosure in this management's discussion and analysis regarding the condition of the design of the Company's internal control over financial reporting in view of certain weaknesses that were identified by management when management, with the participation of the Company's CEO and CFO and the Audit Committee, evaluated the condition of the Company's design of internal control over financial reporting as at the end of the period covered by this management's discussion and analysis, as contemplated by CSA Staff Notice 52-316 *Certification of Design of Internal Control over Financial Reporting*.

While management believes that control over bank accounts and Company assets is adequate, it is also aware that internal control over financial reporting on an ongoing basis is not at the desired level and resulted in the Company being unable to file its annual financial statements for its fiscal year ended June 30, 2006 on time due to the cumulative effect of the following factors and events:

- The Company relocated its head office from Vancouver to Cape Town, South Africa as of the beginning of March, 2006. All Canadian based accounting staff, with the exception of the interim CFO, were lost to the Company. The interim CFO managed the transition of the office from Canada to South Africa including the establishment of accounting software systems in both the Cape Town and Windhoek, Namibia offices. Training and familiarity with the accounting system is an ongoing process.
- On completion of the office transition assignment at the end of June 2006, the interim CFO returned to Canada and a new interim CFO was appointed in South Africa with the intention that this would be a temporary situation pending finalization of the Moydow merger transaction (see next point).
- The proposed transaction with Moydow Mines International Inc. tied up significant financial resources and personnel of the Company and as a result of the termination of that transaction the Company was unable to restructure its management and utilize various personnel and resources that were anticipated to be available to assist with the preparation of the annual financial statements following the completion of the transaction.
- As a result of the various changes in the position of Chief Financial Officer during the fiscal year ended June 30, 2006, there has been a lack of CFO continuity during the relevant period contributing to various delays in relation to the preparation of the annual financial statements.
- Complicated technical issues relating to currency exchange matters, inter-company reconciliations and income tax accounting issues, as well as complex issues regarding financial instruments, were identified by management in the course of the preparation of the annual financial statements, which resulted in unanticipated delays.

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The Company recognises that following the termination of the Moydow merger transaction the Company has been left understaffed in its financial division and believes this to be the principal reason for the delays which have reflected weaknesses in the condition of the design of the Company's internal control over financial reporting. The risks associated with these weaknesses are that the Company may continue to experience delays in the preparation of its financial statements including an anticipated delay in filing its interim financial statements for the three-months ended September 30, 2006. However, the Company is actively taking steps to restructure its financial division to remedy the situation to avoid any future delays in the preparation of financial statements pursuant to applicable Canadian securities laws.