

*Second Quarter Report*



*December 31, 2005 and 2004*

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# **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)**

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### **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 un-audited consolidated financial statements of Diamond Fields International Ltd. and the notes thereto for the three and six months ended December 31, 2005 and with the audited annual consolidated financial statements and the notes thereto for the year ended June 30, 2005. The quarterly financial statements at December 31, 2005 are un-audited and have not been reviewed by the Company's external auditor. The effective date of this MD&A is February 13, 2005. Additional information about Diamond Fields, including its annual information form, is available on SEDAR at [www.sedar.com](http://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 during the period ended December 31, 2005 focused on the Company's diamond and gold properties in Liberia. In Namibia, the Company's marine diamond project moved to a new phase of resource development. The Company closed a private placement financing in early November 2005 of Cdn\$6,096,735 with part of the proceeds used to repay a loan obtained from Quest Capital Corporation in the principal amount of Cdn\$1,950,000. Lastly, in December 2005 the Company announced it was closing its Vancouver office as of the end of February 2006 and relocating its head office to its existing offices in Cape Town, South Africa.

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

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

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### RESULTS OF OPERATIONS

#### Mining Activities

##### *Mining Vessel DF Discoverer*

In December 2005 the Company's marine diamond project in Namibia moved to a new phase of resource development. Recently, 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 area to be mined is 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 has led to the mv Discoverer returning to full mining mode. The high grade 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.

#### Exploration Projects

##### *Liberia Exploration Properties*

On January 9, 2006 Diamond Fields announced the discovery of kimberlite on its 1,095 km<sup>2</sup> Grand Cape exploration license in western Liberia. During the six month period ended December 2005, positive results from development work, including grid sampling and pitting encouraged the Company to increase the level of spending on the advancement of the Liberian projects. Surface evaluation of the initial 2 of the 10 high priority kimberlite targets is continuing, with the collection of 100kg samples of weathered kimberlite material from three locations to be tested for the presence of diamonds. Reconnaissance stream sampling is ongoing with about 65% of the property sampled to date. Of the 167 garnet grains analyzed, 20% plot in the G10 field and a significant number of high interest G10D garnets are also present.

Also on the Grand Cape property, gold showings in the Henry Town area have returned visible gold in reconnaissance sampling, and are now the target of artisanal miners recovering coarse gold from the weathered regolith which is up to 15 metres thick. DFI's geologists will continue to explore the area with reconnaissance soil, grid and trench sampling.

Initial results from gold targets in the Barteajam area of the Grand Gedeh property in central Liberia show a semi continuous 1.6km long gold anomaly in soil samples. Sample processing is ongoing as is the work in the field.

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 km<sup>2</sup>.

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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 (200,000 shares issued to date and the Company has paid \$60,000 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 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.

### *Greenland Nickel Exploration Project*

On December 28, 2005 the Company reported that Inco Ltd. had advised Diamond Fields that it does not plan further work on the Company's Ammassalik nickel project in East Greenland and thereby retains 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 Company is assessing its data and the Inco report on the properties to determine if further exploration is warranted.

### SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the six months ended December 31, 2005 and 2004:

	2005	2004
Total revenues	\$ 1,431,911	\$ 5,391,621
Net income (loss)	(2,894,106)	362,172
Net loss per share (basic and diluted)	(0.03)	0.00

Net loss for the six months ended December 31, 2005 was \$(2,894,106) or \$(0.03) per share, compared with a net earnings of \$362,172 or \$0.00 per share in 2004. All revenue for the six months ended December 31, 2005 resulted from the sale of diamonds held in inventory or recovered during operations. A total of 7,846 carats were sold at an average price of approximately \$183 per carat generating revenue of \$1,431,911. Comparatively, the Company sold 26,250 carats in the six months ended December 31 2004 at an average price of \$205 per carat generating revenue of \$5,391,621. Production, royalty and selling expenses associated with the sale of inventory totaled \$2,324,888; whereas, these operating costs for the same period in 2004 were \$2,490,067. The higher costs in 2004 resulted from higher production and the terms of the contract mining agreement with Samicor Mining (Pty) Ltd. The Company generated an operating loss of \$(892,977) for the quarter ended December 31, 2005 compared with \$2,901,554 for the quarter ended December 31, 2004. Factors contributing to the loss included downtime due to equipment failures on the m.v. Discoverer, along with weather delays, a port call for refueling, and the unpredictable grade of the resource.

The Company incurred general and administrative expenses of \$2,043,621 during the six months ended December 31, 2005 compared to \$1,759,626 during 2004. Included in these amounts are financing fees and interest which increased due to the loan with Quest Capital Corporation and the note payable. Office expense increased as a result of the Company's expanded operations. Stock based compensation decreased due to the graded vesting of the Company's stock option plan.

# 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)

### SELECTED QUARTERLY DATA

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

	31-Dec-05	30-Sept-05	30-June-05	31-Mar-05 (Restated)	31-Dec-04	30-Sept-04	30-June-04	31-Mar-04
Total Revenues	1,431,911	750,141	Nil	Nil	1,014,846	4,376,775	Nil	504,252
Net Earnings (Loss)	(2,894,106)	(1,141,526)	(2,048,849)	(2,127,571) <sup>1</sup>	(459,987)	822,159	(1,564,223)	(985,078)
Net Earnings (Loss) per Share (basic and diluted)	(0.03)	(0.01)	(0.03)	(0.03) <sup>1</sup>	(0.01)	0.01	(0.03)	(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. In December 2005 the Company's marine diamond project in Namibia moved to a new phase of resource development and has recently returned to mining.

### CAPITAL RESOURCES AND LIQUIDITY

At December 31, 2005, the Company had working capital of \$146,651 including cash of \$2,171,103 compared with a working capital deficit of \$607,573, including cash of \$1,351,146, at June 30, 2005. The increase in working capital at December 31, 2005 is primarily a result of the private placement financing completed November 7, 2005.

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 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.

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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). Proceeds of the Private Placement are being used towards paying down outstanding debt, maintaining and advancing the Company's exploration projects, and for general working capital.

Funding for the purchase of mv DF Discoverer and applicable taxes were 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.

The December 31, 2005 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. The Company's ability to continue its operations in the normal course of business is dependent upon securing additional financing arrangements, receiving the continued support from its noteholder and, ultimately, obtaining profitable operations. The 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.

### **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 December 31, 2005 amounted to \$2,148,886. 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 December 31, 2005 an aggregate of 10,022,404 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 includes 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, holds 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

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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 transaction" as defined under Ontario Securities Commission Rule 61- 501 (the "Rule"). In connection with Mr. Boule's subscription, DFI 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 DFI's market capitalization, as determined by all of the directors of the Company in accordance with the Rule.

Accounts payable at December 31, 2005 include legal and other fees, including proxy solicitation costs, totalling \$183,000 payable to a company controlled by a major shareholder of the Company.

### **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 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

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

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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 December 31, 2005 and June 30, 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.

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.

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

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

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### **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.

### **OUTSTANDING SHARE DATA**

At February 13, 2006, a total of 112,953,312 common shares of the Company were outstanding. Stock options outstanding at February 13, 2006 totalled 5,448,000 with exercise prices ranging from Cdn\$0.31 to Cdn\$0.91 per share and expiry dates between October 23, 2006 to July 12, 2009, respectively. Warrants outstanding at February 13, 2006 totalled 50,401,106 with exercise prices ranging from Cdn\$0.40 to Cdn\$1.00 per share and expiry dates between November 27, 2005 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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Balance Sheets

(Expressed in U.S. dollars)

	December 31, 2005 (Unaudited)	June 30, 2005
<b>ASSETS</b>		
CURRENT		
Cash	\$ 2,171,103	\$ 1,351,146
Accounts receivable	116,714	66,244
Inventories	583,377	291,829
Prepaid expenses	59,603	330,118
	2,930,797	2,039,337
INVESTMENT	1	1
MINERAL PROPERTIES (Note 2)	8,912,451	8,772,684
PROPERTY, PLANT AND EQUIPMENT	3,188,700	3,216,761
	\$ 15,031,949	\$ 14,028,783
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 824,710	\$ 638,118
Loan payable (Note 3)	-	1,588,212
Current portion of note payable (Note 4)	1,959,436	420,580
	2,784,146	2,646,910
NOTE PAYABLE (Note 4)	-	1,282,670
FUTURE INCOME TAXES	1,526,519	1,537,375
	4,310,665	5,466,955
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 5)		
Authorized - Unlimited number of common shares without par value		
Issued & outstanding: 112,953,312 (June 30, 2005: 81,818,557)	33,679,567	28,696,567
Contributed Surplus	2,111,767	2,041,205
Equity portion of note payable (Note 4)	709,496	709,496
Deficit	(24,774,812)	(21,880,706)
Cumulative translation adjustments	(1,004,734)	(1,004,734)
	10,721,284	8,561,828
	\$ 15,031,949	\$ 14,028,783

APPROVED BY THE BOARD:

*"Roger Daniel"*

Director

*"Gregg Sedun"*

Director

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Consolidated Statements of Earnings (Loss) and Deficit**  
(Un-audited – prepared by management)  
(Expressed in U.S. dollars)

	Three months ended December 31,		Six months ended December 31,	
	2005	2004	2005	2004
DIAMOND SALES	\$ 681,770	\$ 1,014,846	\$ 1,431,911	\$ 5,391,621
OPERATING COSTS				
Production costs (including depletion)	1,410,016	439,379	2,164,062	1,948,860
Royalties, selling and marketing	65,344	129,630	160,826	541,206
	1,475,360	569,010	\$ 2,324,888	2,490,067
	(793,590)	445,836	(892,977)	2,901,554
GENERAL AND ADMINISTRATIVE EXPENSES				
Amortization	10,912	1,857	21,910	9,592
Consulting	31,928	44,874	59,471	109,345
Financing fees	101,457	-	304,371	-
Interest on loan and note payable (Note 6)	154,665	153,828	329,448	315,860
Investor relations	71,520	59,375	116,767	77,998
Maintenance	11,269	10,402	21,187	20,147
Office	93,448	100,263	198,748	169,893
Professional fees	100,491	47,577	176,979	131,064
Regulatory	23,543	22,425	31,640	30,211
Salaries and benefits	327,778	301,953	613,817	569,800
Stock-based compensation	35,281	103,591	70,562	202,005
Travel and accommodation	26,645	90,346	98,720	123,711
	988,938	936,491	2,043,621	1,759,626
OTHER INCOME (EXPENSE)				
Interest and other income	13,112	(78,233)	17,093	(67,198)
Provision for impairment of exploration properties	-	-	-	(796,791)
Foreign exchange	13,337	100,395	14,618	65,466
	26,449	22,161	31,711	(798,524)
EARNINGS (LOSS) BEFORE INCOME TAXES	(1,756,078)	(468,494)	(2,904,886)	343,404
RECOVERY OF FUTURE INCOME TAXES	3,499	8,507	10,781	18,768
NET EARNINGS (LOSS) FOR THE PERIOD	(1,752,580)	(459,987)	(2,894,106)	362,172
DEFICIT, BEGINNING OF PERIOD	(23,022,231)	(17,244,299)	(21,880,706)	(18,066,458)
DEFICIT, END OF PERIOD	\$ (24,774,812)	\$ (17,704,286)	\$ (24,774,812)	\$ (17,704,286)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)	100,112	68,651	90,988	68,476

See accompanying Notes to the Consolidated Financial Statements  
These interim financial statements have not been reviewed by the Company's external auditors.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Cash Flows

(Un-audited – prepared by management)

(Expressed in U.S. dollars)

	Three months ended December 31,		Six months ended December 31,	
	2005	2004	2005	2004
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (1,752,580)	\$ (459,987)	\$ (2,894,106)	\$ 362,172
Items not involving use of cash:				
Depreciation and depletion	177,610	9,630	366,630	239,620
Accrued interest	35,341	57,550	66,954	75,782
Non-cash interest expense	95,558	111,746	189,232	218,069
Financing fees	101,457	-	304,371	-
Recovery of future income taxes	(3,499)	(8,507)	(10,781)	(18,768)
Stock-based compensation	35,281	103,591	70,562	202,005
Provision for impairment of exploration properties	-	-	-	796,791
Net change in non-cash operating working capital items (Note 6)	65,780	405,815	(189,282)	304,006
	<b>(1,245,052)</b>	219,838	<b>(2,096,420)</b>	2,179,677
<b>FINANCING ACTIVITIES</b>				
Share capital issued, net of issue costs	4,942,087	228,487	4,983,000	322,278
Proceeds (Repayment) of loan payable	(1,588,212)	1,560,866	(1,588,212)	1,560,866
Repayment of note payable	-	(178,520)	-	(341,043)
	<b>3,353,875</b>	1,610,833	<b>3,394,788</b>	1,542,101
<b>INVESTING ACTIVITIES</b>				
Expenditures on mineral properties	(133,989)	(347,914)	(172,991)	(1,083,131)
Expenditures on other capital assets	(65,652)	(1,737,617)	(305,419)	(1,740,567)
	<b>(199,641)</b>	(2,085,531)	<b>(478,410)</b>	(2,823,698)
INCREASE (DECREASE) IN CASH	1,909,181	(254,860)	819,957	898,080
CASH, BEGINNING OF PERIOD	261,922	3,553,991	1,351,146	2,401,051
CASH, END OF PERIOD	\$ 2,171,103	\$ 3,299,131	\$ 2,171,103	\$ 3,299,131

See accompanying Notes to the Consolidated Financial Statements  
These interim financial statements have not been reviewed by the Company's external auditors.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three and six months ended December 31, 2005 and 2004

(Un-audited – prepared by management)

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

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### 1. BASIS OF PRESENTATION

These interim financial statements do not contain all the information required by Canadian generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent audited annual financial statements of the Company for the year ended June 30, 2005.

These interim financial statements follow the same accounting policies and methods of application as described in Note 1 and Note 3 to the Company's most recent audited annual financial statements.

### 2. MINERAL PROPERTIES

Details of the Company's mineral properties are described in Note 6 to the Company's most recent audited annual financial statements.

	<b>December 31, 2005</b>	June 30, 2005
Namibian sea concessions	\$ 7,362,249	\$7,396,194
South African deep sea concessions	1	1
Other exploration properties	<b>1,550,201</b>	1,376,489
	<b>\$ 8,912,451</b>	\$8,772,684

#### *Greenland Nickel Exploration Project*

On December 28, 2005 the Company reported that Inco Ltd. had advised Diamond Fields that it does not plan further work on the Company's Ammassalik nickel project in East Greenland and thereby retains 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 Company is assessing its data and the Inco report on the properties to determine if further exploration is warranted.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three and six months ended December 31, 2005 and 2004

(Un-audited – prepared by management)

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

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### 3. LOAN PAYABLE

Details of the loan payable are described in Note 8 to the Company's most recent audited annual financial statements.

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

### 4. NOTE PAYABLE

Details of the note payable are described in Note 9 to the Company's most recent audited annual financial statements. The financial liability component of the note is comprised of the following:

Total proceeds	\$ 2,349,875
Deduct portion allocated to the equity instrument (the deemed discount on issue)	<u>(709,496)</u>
Financial liability component at inception	1,640,379
Less:	
Principal repayments	(341,043)
Add:	
Accretion of the deemed discount on issue	503,137
Accrued interest	<u>156,963</u>
Balance of financial liability component	1,959,436
Less:	
Amount included in current liabilities	<u>(1,959,436)</u>
Long-term balance	<u>\$ -</u>

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. At December 31, 2005 an aggregate of 10,022,404 common shares were issuable under this conversion privilege. The face value of the note, including accrued and unpaid interest to December 31, 2005, amounted to \$2,148,886.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three and six months ended December 31, 2005 and 2004

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### 5. SHARE CAPITAL

During the six months ended December 31, 2005 the following share transactions took place:

197,079 common shares were issued for \$36,037 pursuant to the Company's Share Purchase Plan;

100,000 common shares with a fair value of \$23,795 were issued as partial compensation for an option to acquire a working interest in certain exploration properties.

30,483,676 common shares were issued for net proceeds of \$4,984,424 pursuant to a private placement financing.

354,000 common shares with a fair value of \$61,256 were issued as a finder's fee.

During the six months ended December 31, 2005, 760,000 options were granted at a price of Cdn\$0.27 per share. The options vest over three years and expire September 1, 2010. The fair value of stock based compensation for the options granted during the period was estimated at \$128,487. The Company used the Black-Scholes option pricing model to estimate the value of the options at each grant date. Additionally, 320,000 options were cancelled at prices between Cdn\$0.57 and Cdn\$0.80 per share and expiry dates between March 12, 2007 and June 23, 2009.

At February 13, 2006, a total of 112,953,312 common shares of the Company were outstanding. Stock options outstanding at February 13, 2006 totalled 5,448,000 with exercise prices and expiry dates ranging from Cdn\$0.31 to Cdn\$0.91 per share and October 23, 2006 to July 12, 2009, respectively. Warrants outstanding at February 13, 2006 totalled 50,401,106 with exercise prices and expiry dates ranging from Cdn\$0.40 to Cdn\$1.00 per share and maturity dates ranging from November 27, 2005 and June 2, 2008.

#### Private Placement Financing

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 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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three and six months ended December 31, 2005 and 2004

(Un-audited – prepared by management)

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

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### 5. SHARE CAPITAL (Cont.)

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). Proceeds of the Private Placement are being used towards paying down outstanding debt, maintaining and advancing the Company's exploration projects, and for general working capital.

### 6. CASH FLOW INFORMATION

The net change in non-cash operating working capital items is comprised of:

	Three months ended		Six months ended	
	December 31		December 31	
	2005	2004	2005	2004
(Increase) decrease in:				
Accounts receivable	\$ (44,242)	\$ 97,662	\$ (50,470)	\$ 26,698
Inventory	223,928	458,081	(291,548)	433,941
Prepaid expenses	19,894	(140,577)	(33,855)	(49,038)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(133,800)	(9,351)	186,591	(107,595)
	<u>\$ (65,780)</u>	<u>\$ 405,815</u>	<u>\$ (189,282)</u>	<u>\$ 304,006</u>

### 7. SEGMENTED INFORMATION

The Company considers its business to consist of one reportable business segment. All of the Company's revenue for the three and six month periods ended December 31, 2005 and 2004 was earned in Namibia.

### 8. OTHER RELATED PARTY TRANSACTIONS

Accounts payable at December 31, 2005 include legal and other fees, including proxy solicitation costs, totalling \$183,000 (June 30, 2005 - \$183,000) payable to a company controlled by a major shareholder of the Company.