

*Consolidated Financial Statements of*

**DIAMOND FIELDS INTERNATIONAL LTD.**

*June 30, 2007 and 2006*

## **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 of executing 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 makes its recommendations to the Board of Directors. Based on those recommendations, the Board of Directors approves the consolidated financial statements.

(Signed) "Roger Daniel"

Roger Daniel

President and Chief Executive Officer

September 28, 2007

## **Auditors' Report**

### **To the Shareholders of Diamond Fields International Ltd.**

We have audited the consolidated balance sheets of Diamond Fields International Ltd. As at June 30, 2007 and 2006 and the consolidated statement of loss and deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those 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, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two-year period ended June 30, 2007 in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers"**

**Chartered Accountants, Licensed Public Accountants**  
Toronto, Ontario  
September 28, 2007

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Balance Sheets

June 30, 2007 and 2006

(Expressed in U.S. dollars)

	2007	2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	8,995,041	286,887
Accounts receivable	131,122	47,266
Prepaid expenses and other	51,395	41,116
Inventories (Note 4)	617,025	502,564
	9,794,583	877,833
INVESTMENTS (Note 5)	104,219	-
MINERAL PROPERTIES (Note 6)	8,330,913	8,148,381
PROPERTY, PLANT AND EQUIPMENT (Note 7)	2,065,370	2,776,959
	20,295,085	11,803,173
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	1,539,643	908,142
Current portion of notes payable (Note 8)	-	2,213,620
	1,539,643	3,121,762
NOTES PAYABLE (Note 8)	3,677,034	-
FUTURE INCOME TAXES (Note 9)	1,262,189	1,215,234
	6,478,866	4,336,996
NATURE OF OPERATIONS AND GOING CONCERN (Note 1)		
COMMITMENTS (Note 16)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	45,031,029	33,709,774
Contributed surplus (Note 11)	2,669,107	2,122,507
Equity portion of note payable (Note 8)	275,215	709,496
Accumulated Deficit	(33,154,398)	(28,070,866)
Cumulative translation adjustments (Note 2(c))	(1,004,734)	(1,004,734)
	13,816,219	7,466,177
	20,295,085	11,803,173

APPROVED BY THE BOARD:

*"Roger Daniel"*

Director

*"Gooroodeo Sookun "*

Director

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Loss and Deficit

Years ended June 30, 2007 and 2006

(Expressed in U.S. dollars)

	2007	2006
DIAMOND SALES	2,503,030	2,916,733
OPERATING COSTS		
Production costs (including depreciation and depletion)	3,490,886	4,667,466
Royalties, selling and marketing	261,452	342,853
	3,752,338	5,010,319
	(1,249,308)	(2,093,586)
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	35,082	42,752
Consulting	206,583	138,720
Financing fees	-	304,371
Investor relations	109,058	136,882
Maintenance	21,333	49,249
Office	268,236	358,242
Professional fees	615,234	483,375
Regulatory	88,266	66,317
Salaries and benefits	594,670	1,108,268
Stock-based compensation	(162,896)	81,302
Travel and accommodation	94,892	154,476
	1,870,458	2,923,954
OTHER INCOME (EXPENSE)		
Interest and other income	15,292	34,930
Interest on loan and note payable (Note 8)	(266,365)	(583,749)
Other interest expense	(152,750)	-
Loss on disposal of property, plant and equipment	(1,234,157)	(21,398)
Write-off of exploration properties (Note 6)	(8,167)	(963,974)
Other expenses	(289,180)	-
Foreign exchange gain	18,516	39,430
	(1,916,811)	(1,494,761)
LOSS BEFORE INCOME TAXES	(5,036,577)	(6,512,301)
FUTURE INCOME TAXES (EXPENSE)/RECOVERY	(46,955)	322,141
NET LOSS FOR THE YEAR	(5,083,532)	(6,190,160)
DEFICIT, BEGINNING OF YEAR	(28,070,866)	(21,880,706)
DEFICIT, END OF YEAR	(33,154,398)	(28,070,866)
BASIC AND DILUTED LOSS PER SHARE	(0.04)	(0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)	133,309	101,945

See accompanying Notes to the Consolidated Financial Statements.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Cash Flows

Years ended June 30, 2007 and 2006

(Expressed in U.S. dollars)

	<u>2007</u>	<u>2006</u>
<b>OPERATING ACTIVITIES</b>		
Net loss	(5,083,532)	(6,190,160)
Items not affecting use of cash		
Amortization and depletion	822,017	748,374
Accrued interest	-	114,779
Financing fees	-	304,371
Non-cash interest expense	136,157	395,591
Loss on write-off of property, plant and equipment	1,234,157	21,398
Write-off of exploration properties	8,167	963,974
Recovery of future income taxes	46,955	(322,141)
Stock-based compensation	(162,896)	81,302
Net change in non-cash operating working capital items (Note 12)	422,905	62,899
	<u>(2,576,070)</u>	<u>(3,819,613)</u>
<b>FINANCING ACTIVITIES</b>		
Share capital issued, net of issue costs	11,321,255	5,013,207
Proceeds/(repayment) from loan payable	1,602,472	(1,588,212)
	<u>12,923,727</u>	<u>3,424,995</u>
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral properties	(410,552)	(519,409)
Proceeds on disposal of property, plant and equipment	316,908	4,416
Purchases of property, plant and equipment	(1,545,859)	(154,648)
	<u>(1,639,503)</u>	<u>(669,641)</u>
<b>INCREASE/(DECREASE) IN CASH</b>	<b>8,708,154</b>	<b>(1,064,259)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>286,887</b>	<b>1,351,146</b>
<b>CASH, END OF YEAR</b>	<b>8,995,041</b>	<b>286,887</b>
<b>OTHER SUPPLEMENTARY INFORMATION:</b>		
Cash interest received	33,865	34,612
Cash interest paid	133,944	74,754
Cash 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, 2007 and 2006**

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

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### **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, as well as exploration rights in Madagascar.

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, certain conditions and events cast substantial doubt upon the validity of this assumption. For the period ended June 30, 2007 the company incurred a loss of \$5,083,532, and had a cash outflow of \$2,576,070 from operations. The company successfully raised financing in 2007 and had a working capital surplus of \$8,254,940 at June 30, 2007.

The dry-docking of the Company’s mining vessel at the beginning of the financial year-end impacted negatively on revenue and results from operations. The company’s ability to continue its operations in the normal course of business is dependent upon its ability to achieve and sustain profitable operations. Alternatively, the company is dependent on continued support from shareholders and creditors. It is not possible to determine with any certainty the success and adequacy of these initiatives.

These consolidated financial statements do not give effect to adjustments that would be necessary 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, 2007 and 2006

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

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### 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*

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. 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.

Inter-company transactions and balances between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

#### (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*

##### Functional and presentation currency

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.

##### Transactions and balances

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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) *Foreign currencies (continued)*

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.

#### Group companies

The company has determined that all of its subsidiaries are integrated and the results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency using the temporal method:

- monetary assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- non-monetary items are translated at historical exchange rates;
- income and expenses for each income statement are translated at exchange rates approximating the exchange rates in effect at the time of the transactions; and
- depreciation or amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate
- all resulting exchange differences are recognised 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.

#### (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, less applicable variable selling expenses.

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

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 when the proceeds exceed the cost, the excess is credited to its 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 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, each mineral property is tested for impairment by comparing its carrying value to the sum of the undiscounted cash flows expected to be generated through use or disposal. When carrying values exceed the value of future cash flows, the carrying value of 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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) *Property, plant and equipment*

Equipment comprises mainly the mining vessel, automobiles and office equipment. Land is shown at cost. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Automobiles	Three to five years
Buildings, plant and equipment	Three to forty years
Leasehold improvements	Two years
Mining vessel and plant equipment	One to six years
Office equipment	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 fair value if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other income (expense) in the income statement.

#### (i) *Notes 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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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. 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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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 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, 2007 or 2006.

#### **New Accounting Policies**

#### (o) *Financial Instruments, Comprehensive Income and Hedges*

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurements", 1530 "Comprehensive Income", and 3685, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company will adopt these new standards effective January 1, 2007.

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instruments gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method;
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) *Financial Instruments, Comprehensive Income and Hedges (continued)*

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Section 3865 provides alternative treatment to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The Company is currently assessing the impact of these standards on its consolidated financial statements.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 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 areas 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.

Estimated indicated resources (probable diamond reserves) for the Company's Namibian marine diamond concessions are based on the September 2006 feasibility study by AGRA Simons Ltd., which contemplated different mining technology than that in use by or available to the company.

Further studies were conducted by SRK Consulting in December 2006 to define resources in a designated prospect area.

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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 3. CRITICAL ACCOUNTING ESTIMATES (Continued)

(a) *Mineral Properties(Continued)*

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) *Loan 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.

(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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

### 4. INVENTORIES

	<u>2007</u>	<u>2006</u>
Diamond inventory	261,369	304,199
Materials and supplies	355,656	198,365
	<u>617,025</u>	<u>502,564</u>

### 5. INVESTMENTS

The investment comprises 1.5 million shares held in Bonaparte Diamond Mines, a listed entity on the Australian Stock Exchange, the fair value of which was \$146,385 as at June 30, 2007.

### 6. MINERAL PROPERTIES

	<u>2007</u>	<u>2006</u>
Namibian sea concessions	6,995,548	7,215,401
Other exploration properties	1,335,365	932,980
	<u>8,330,913</u>	<u>8,148,381</u>

#### **Namibian sea concessions**

Through its subsidiary, Diamond Fields (Namibia) (Pty) Ltd., the Company owns a 100% interest in the Luderitz sea concessions off the coast of Namibia. The Company's joint operation partner has rights to earn into 30-35% of gross mining proceeds from designated mining areas.

#### **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 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 \$1,268,775 as at June 30, 2007. 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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 6. MINERAL PROPERTIES (Continued)

#### *Madagascar nickel exploration program*

The Company acquired rights to the mineral properties of the Valozoro lateritic nickel deposit in Madagascar, through one of its subsidiaries.

#### *Discontinued Projects*

In a news release dated May 9, 2007 the Company reported that following assessment of exploration data it did not plan further exploration programs on the Ammassalik nickel project in East Greenland. A provision for impairment of associated accumulated exploration costs was recorded in the 2006 financial year. In the current an additional amount of \$8,167 was written off relating to the under accrual of prior year exploration costs invoiced in the current year .

Through its indirect wholly owned subsidiary, Diamond Fields (South Africa) (Pty) Ltd., the Company owned a deep-sea diamond concession off the west coast of South Africa which, due to the extreme depths which are beyond the ability of current mining technology to economically access, was allowed to lapse in July 2006.

### 7. PROPERTY, PLANT AND EQUIPMENT

	2007			2006
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	-	-	-	95,535
Buildings, plant and Equipment	-	-	-	276,322
Automobiles	98,081	64,200	33,881	54,054
Office equipment	115,784	82,527	33,257	25,766
Mining vessel and plant equipment	2,933,147	934,915	1,998,232	2,325,282
	<b>3,147,012</b>	<b>1,081,642</b>	<b>2,065,370</b>	<b>2,776,959</b>

Depreciation charged on property, plant and equipment for the year included in the Loss and Deficit Statement amounted to \$748,187 (2006 \$568,635).

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

### 8. NOTE PAYABLE

	<u>2007</u>	<u>2006</u>
Opening balance	2,213,620	1,703,250
Accretion of the deemed discount on issue	-	395,591
Accrued interest	266,365	114,779
Transfer from accounts payable	182,995	-
Advances received pursuant to new credit agreement	1,419,477	-
Repayments including interest	(130,208)	-
Deduct portion allocated to equity	(275,215)	-
	<u>3,677,034</u>	<u>2,213,620</u>
Less: Amount included in current liabilities	-	(2,213,620)
Long-term balance	<u>3,677,034</u>	-

The Company had a loan supported by a promissory note payable to Spirit Resources SARL ("Spirit"), a company controlled by a major shareholder of the Company. The note bore interest at 6% per annum and was repayable in minimum monthly instalments of \$100,000 until maturity on July 15, 2006. Payments had 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 was 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 had 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.

On February 20, 2007, a Credit Facility Agreement was signed with Spirit, which consolidated the prior note payable with an additional advance of \$1.5M. The new agreement stipulates that the principal balance will accrue interest at 10% and is payable in full at maturity on February 20, 2009. The facility is secured by the mining vessel (the Diamond Fields Discoverer), guarantees by certain wholly owned subsidiaries of the Company which own and operate the vessel and hold title to the Luderitz undersea diamond concessions in Namibia.

The principal balance plus any accrued interest is convertible, at the noteholders option, into common shares of DFI at a conversion price of \$0.25 per share. The fair value of the option component of the Debenture was estimated using the residual value method as approximately \$275,215 and will be charged to income as accretion expense using the effective interest method.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

### 8. NOTE PAYABLE(Continued)

The note payable is convertible into common shares of the Company on the basis of one common share for each US\$0.15 of principal, at the option of Spirit Resources.

The future principal repayments required on the loan payable at June 30, 2007 are as follows:

Within 1 year	-
Within 2 years	<b>3,901,161</b>

### 9. INCOME TAXES

Future income tax assets and liabilities at June 30, 2007 and 2006 arise from the following:

	<u>2007</u>	<u>2006</u>
Future income tax assets		
Capital assets	175,767	11,819
Loss carry-forwards	7,871,547	6,605,409
Valuation allowance	(5,465,902)	(4,303,513)
Net future income tax assets	2,581,412	2,313,715
Future income tax liabilities		
Inventories	344,745	30,684
Mineral properties	3,498,856	3,498,265
Future income tax liabilities, net	\$ (1,262,189)	\$ (1,215,234)

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

	<u>2007</u>	<u>2006</u>
Combined statutory tax rates	31.0%	31.0%
Provision for recovery of income taxes based		
On combined Canadian federal and provincial basic statutory rate	(1,628,198)	(1,832,196)
Add (deduct):		
Foreign tax rate differences	(871,960)	(503,207)
Non-taxable/deductible items	(9,120)	265,355
Tax benefits of losses not recognized	2,556,233	1,747,907
Future income taxes (recovery)/expense	46,955	(322,141)

The Company has Canadian tax loss carry-forwards at June 30, 2007 of approximately \$9,887,000, which expire as to \$475,000 in 2008, \$1,187,000 in 2009, \$1,168,000 in 2010, \$1,771,000 in 2014 \$1,630,000 in 2015, \$1,920,000 in 2026 and 1,736,000 in 2027. The Company also has foreign tax loss carry-forwards at June 30, 2007 of approximately \$9,050,000 in Namibia and \$124,000 in South Africa. The foreign loss carry-forwards can be carried forward indefinitely, subject to continuity of business tests.

The Company is exposed to penalties on certain Namibian Value Added Tax filings of up to \$563,771 of which \$281,885 has not yet been provided as the authorities have not yet made a determination.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 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
	<u>                    </u>	<u>                    </u>
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
<hr/>		
Balance, June 30, 2006	113,173,157	\$33,709,774
Shares issued for non-cash consideration		
Acquisition of interest		
in exploration property (Note 6)	100,000	10,780
Share Bonus Plan	400,000	67,998
Shares issued for cash		
Private placement (net of issuing costs)	66,666,666	9,252,238
Rights offering (net of issuing costs)	28,036,629	1,988,156
Share purchase plan	22,860	2,083
<hr/>		
Balance, June 30, 2007	208,399,312	45,031,029

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# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 10. SHARE CAPITAL (Continued)

#### Issued and outstanding share capital (continued)

##### *Private placement*

The Company completed a 66,666,666 shares private placement on May 20, 2007 at \$0.15 per unit for total gross proceeds of \$10,000,000.

Finders fees in connection with the Private Placement totalled \$700,000.

##### *Share transactions subsequent to year end*

100,000 common shares with a fair value of \$9,559 (Cdn\$10,000) were issued on August 24<sup>th</sup> 2007, as the third 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 8,000,000 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 1,000,000 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, at the end of each calendar quarter during which he or she participates in the Share Purchase Plan, is 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 1,000,000 common shares can be issued pursuant to the Share Purchase Plan.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

(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, 2005	2,259,773	5,008,000	\$ 0.49
Options granted	(760,000)	760,000	0.27
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
Options granted	(1,250,000)	1,250,000	0.22
Options forfeited	1,635,000	(1,635,000)	0.47
Share bonus plan shares issued	(400,000)	-	-
Share purchase plan shares issued	(28,860)	-	-
Balances, June 30, 2007	1,683,989	4,738,000	\$ 0.38

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

(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, 2007:

Options Outstanding			Options Exercisable	
Number Outstanding	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)
540,000	0.58	0.43	540,000	0.43
25,000	0.85	0.31	25,000	0.31
1,540,000	0.97	0.32	1,540,000	0.32
615,000	1.23	0.32	615,000	0.32
50,000	1.26	0.70	50,000	0.70
25,000	1.42	0.91	25,000	0.91
120,000	1.48	0.80	120,000	0.80
33,000	1.95	0.57	33,000	0.57
300,000	2.44	0.43	300,000	0.43
240,000	3.17	0.27	120,000	0.27
50,000	4.02	0.14	12,250	0.14
1,200,000	4.72	0.22	400,000	0.22
4,738,000	3.19	0.38	3,780,250	0.42

At June 30, 2007, the U.S. dollar equivalent of the weighted average exercise price per share for the options outstanding and the options exercisable was \$0.34 and \$0.37, respectively.

The estimated fair value of stock options granted in 2007 was \$173,138 (2006 \$128,487) with a weighted average exercise price of \$0.25 (Cdn\$0.22) (2006 - \$0.23; Cdn\$0.0.27) 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:

	2007	2006
Dividend yield	None	None
Annual volatility	100.0 %	100.0 %
Risk-free interest rate	4.07 %	3.25 %
Expected life	5 years	5 years

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 10. SHARE CAPITAL (Continued)

#### Share purchase warrants

At June 30, 2007, 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
5,000,000	5,000,000	Cdn\$0.40	June 3, 2005	June 2, 2008
31,459,176	31,459,176	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 30<sup>th</sup> day following delivery of notice unless the warrants are exercised by the purchaser prior to such time.

#### Compensation warrants

At June 30, 2007, 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

	2007	2006
Balance, beginning of year	2,122,507	2,041,205
Add (deduct) amounts arising from:		
Stock-based compensation expense/(forfeiture)		
Employees	(162,896)	81,302
Transfer from equity portion of interest-bearing debt (Note 8)	709,496	-
Balance, end of year	2,669,107	2,122,507

Since the previous note payable has been consolidated with the new loan based on a credit facility agreement signed this year (note 8), this previous compound financial instrument is deemed fully repaid and therefore the equity portion of the note payable has been realised and transferred to contributed surplus.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	<u>2007</u>	<u>2006</u>
(Increase) decrease in:		
Accounts receivable	(83,856)	18,978
Inventories	(114,461)	(210,735)
Prepaid expenses	(10,279)	(15,368)
Increase in:		
Accounts payable and accrued liabilities	631,501	270,024
	<u>422,905</u>	<u>62,899</u>

Supplemental disclosure of non-cash investing and financing activities:

	<u>2007</u>	<u>2006</u>
Investing and financing activities:		
Shares issued for acquisition of interest in exploration property	10,780	23,795

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# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

### 13. SEGMENTED INFORMATION

At 30 June 2007 the Group is divided into four main geographical segments listed below. Other group operations comprise Greenland and Norway and these do not constitute a separately reportable segment.

The segment results for the year ended 30 June 2007 are as follows:

	Head Office	Namibia	Madagascar	West Africa	Other	Total
Diamond Sales	-	2,503,030	-	-	-	2,503,030
Net Loss for the year	(1,401,776)	(3,629,492)	(3,315)	(36,111)	(12,838)	(5,083,532)
Cash	8,478,188	462,755	-	54,098	-	8,995,041
Accounts receivable	15,287	115,835	-	-	-	131,122
Prepaid expenses	26,474	18,254	-	6,667	-	51,395
Inventories	-	617,025	-	-	-	617,025
Investments	104,219	-	-	-	-	104,219
Mineral Properties	-	6,995,549	55,830	1,279,534	-	8,330,913
Property, plant and equipment	10,730	2,025,808	-	28,832	-	2,065,370
Total assets	8,634,898	10,235,226	-	1,369,131	-	20,295,085
<b>Significant Items</b>						
Depreciation, depletion and amortization	4,763	792,032	-	25,222	-	822,017
Interest expense	266,365	152,750	-	-	-	419,115

The segment results for the year ended 30 June 2006 are as follows:

	Head Office	Namibia	Madagascar	West Africa	Other	Total
Diamond Sales	-	2,916,733	-	-	-	2,916,733
Net Loss for the year	(2,706,318)	(2,714,536)	(19,891)	(18,429)	(730,988)	(6,190,160)
Cash	252,434	30,150	-	4,303	-	286,887
Accounts receivable	18,231	29,035	-	-	-	47,266
Prepaid expenses	33,639	7,477	-	-	-	41,116
Inventories	-	502,564	-	-	-	502,564
Mineral Properties	-	7,215,402	-	932,979	-	8,148,381
Property, plant and equipment	1,499	2,721,407	-	54,053	-	2,776,959
Total Assets	305,803	10,506,035	-	991,336	-	11,803,173
<b>Significant Items</b>						
Depreciation, depletion and amortization	23,296	709,467	-	15,611	-	748,374
Interest expense	565,843	287,347	-	-	-	853,190

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2007 and 2006

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

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### 14. FINANCIAL INSTRUMENTS

The carrying amounts of cash, accounts receivable, accounts payable and loan payable as at June 30, 2007 and 2006, approximate their fair values.

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. RELATED PARTY TRANSACTIONS

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

During the year ended June 30, 2007 the Company was charged fees for consulting services of \$46,355 (2006 – \$115,486) by a director of the Company. There were no outstanding amounts included in accounts payable and accrued liabilities at June 30, 2007 (2006 – 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 2007, the company paid marketing expenses amounting to \$81,224 (2006: 73,860) to Diamond Tenders (Belgium) N.V.

There were no related party amounts included in Accounts Payable as 30 June 2007. 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.

### 16. COMMITMENTS

The Company leases office space under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>2007</u>	<u>2006</u>
No later than 1 year	27,234	21,170
Later than 1 year and no later than 5 years	9,631	3,685
Later than 5 years	-	-
	<u>36,865</u>	<u>24,855</u>

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Notes to the Consolidated Financial Statements**

**Years ended June 30, 2007 and 2006**

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

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### **17. SUBSEQUENT EVENTS**

#### **Conversion of Spirit Debt**

The Company announced on July 26, 2007 that Spirit Resources SARL has converted all of the outstanding debt under its credit facility with the Company (Note 8) into common shares of the Company. Spirit has converted the principal amount of US\$3,901,110.53 into common shares of the Company on the basis of one common share for each US\$0.15 of principal, as approved by the Company's minority shareholders at the annual general meeting held on June 20, 2007. As a result, 26,007,403 common shares of the Company have been issued to Spirit.

With the repayment of all amounts owing to Spirit under the credit facility, Spirit has released all of its security over the Company's assets (Note 8).

#### **Expansion of Joint Operations Agreement**

The company announced on July 16, 2007 the successful conclusion of discussions with Joint Operations partner, Bonaparte Diamond Mines NL, to expand the scope of the operations in the Company's offshore Namibia mining license. The Company and Bonaparte signed an amendment to the existing Joint Operations Mining Agreement whereby the original Joint Operations area has been expanded and will continued to be sampled by Bonaparte at its cost.

In terms of the amendment the Company's subsidiary, Diamond Fields Namibia (Pty) Ltd, and Bonaparte Diamond Mines NL will share the operations costs, diamond marketing costs and gross sales proceeds from production in proportion of 65% to Diamond Fields Namibia (Pty) Ltd and 35% to Bonaparte Diamond Mines NL.

In terms of the agreement, Bonaparte will incur expenditure not less than NAD\$5,000,000 directly on resource development within the expanded Joint Operations area.

#### **Joint venture for exploration in Zambia**

The Company announced on July 24, 2007 the successful conclusion of a Joint Venture Agreement with Lion Fields Limited for mineral exploration in western Zambia.

Lion Fields Limited has been granted the exclusive right to conduct exploration work for copper, gold, silver, zinc, lead and germanium over a property in the Solwezi district of western Zambia. Subject to Toronto Stock Exchange approval, the Company and Lion Fields have agreed to form a Joint Venture on an 80% (DFI) to 20% (Lion Fields) basis.

In terms of the Agreement, the Company has to reimburse Lion Fields within 30 days of the effective date of the agreement to the amount of \$200,000 for their portion of exploration costs incurred. The amount is not interest bearing.

# **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", "DFI" 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, 2007. The effective date of this MD&A is September 27th, 2007. 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, except as required by applicable law. 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 ("TSX"). 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, its nickel property in Madagascar and a zinc copper project in Zambia.

Annual diamond production for the year ending June 30, 2007 on Diamond Fields' Namibian marine concessions utilising its own vessel mv DF Discoverer yielded 15,655 carats following the resumption of operations in late November 2006 following the vessel's 2.5 yearly statutory dry dock inspection. A total of 15,515 carats were sold during the financial year (average price received per carat \$204.96). Of this production the revenue from 3,170 carats (average price \$214.45) was attributable to joint operations partner Bonaparte Diamond Mines NL under the joint operations agreement (see RESULTS OF OPERATIONS, *Mining Vessel DF Discoverer* below). 1,720 carats were held in inventory at year end, which were subsequently sold at an average price of \$234.13 per carat. Revenue generated in the 2007 financial year amounted to \$2,503,030 (net of amounts attributable to joint operations partner). Operating costs during the 2007 financial year were \$3,752,338 resulting in an operating loss of \$1,249,308.

# 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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During the 2007 financial year the Company raised additional financing necessary to continue its operations in the normal course of business (see "Capital Resources and Liquidity").

### RESULTS OF OPERATIONS

#### Marine Mining and Exploration Activities

##### *Mining Vessel DF Discoverer*

As announced on May 16, 2006, the vessel suspended operations in early June 2006 and sailed for Cape Town for its statutory 2.5 yearly dry docking and a maintenance and refit program. The dry docking and other scheduled work was completed and the vessel resumed mining operations in the Diaz Reef area of marine diamond Mining License ML 111 ("ML 111") on November 20, 2006. The overall dry dock/refit 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.

On August 18, 2006, the Company announced an expansion of its joint operations agreement ("JO") with Bonaparte Diamond Mines NL ("Bonaparte"), an Australian listed marine diamond company, to include an agreement for development of marine diamond resources within DFI's ML111.

By issuing 1.5M Bonaparte shares to DFI (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 area designated under this agreement, Bonaparte would earn a 30% interest in any indicated category marine diamond resources (JORC and NI 43-101 code compliant) defined by their programme. The resulting sampling programme replaced 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 allowed 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. DFI's reconnaissance work had identified diamonds in the 1,600,000m<sup>2</sup> area, but sampling density was not sufficient to complete a resource calculation to the indicated category.

Indicated resources defined under this agreement that are of sufficient grade will be included in DFI's mine plans for the MV DF Discoverer with agreed mining expenses and diamonds recovered to be shared on the basis of 70% DFI; 30% Bonaparte. Should DFI opt not to mine any indicated resource identified under this agreement, Bonaparte will have the option to mine for its own account and pay DFI a 14% royalty on gross recoveries. All diamonds recovered are subject to DFI's marketing agreement with Diamond Tenders, Belgium NV.

As a result of a successful sampling campaign by Bonaparte during September – October 2006 utilising De Beers Marine's custom sampling vessel MV Douglas Bay, the Company announced on January 4, 2007 that independent consulting company SRK Consulting ("SRK") had estimated a NI 43-101 compliant Indicated Resource of 63,000 carats in the DP1 joint operations area in ML 111.

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Details of the Indicated Resource calculation, including the key assumptions, parameters and methods used to estimate the Indicated Resource, are contained in the NI 43-101 technical report entitled "Resource Estimates for the Diaz Prospect 1, Namibia" dated December, 2006 prepared by SRK for DFI and Bonaparte, a copy of which has been filed under DFI's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Key points from the SRK report are as follows:

- Indicated Resource of 63,000 carats of newly defined resource has been independently estimated in the Diaz Prospect 1 area in ML111, Namibia.
- Total resource area of 315,000m<sup>2</sup> at average grade of 0.2ct/m<sup>2</sup>.
- 76% of total resource (48,000 carats) occurs at an average grade of 0.43ct/m<sup>2</sup> in an area of 111,500m<sup>2</sup> within defined resource area.
- Anticipated 30% increase in estimated grades during mining.
- Large average stone size of 0.47 carats per stone.

SRK's NI 43-101 compliant Indicated Resource estimate of 63,000 carats occurs within 7 discrete zones in DP1 with a combined area of 315,000m<sup>2</sup> and an average grade of 0.2 ct/m<sup>2</sup>. This global grade exceeds the assay cut-off of 0.1 ct/m<sup>2</sup> which is normally applied to offshore diamond resource estimates. Application of an assay cut-off of 0.2ct/m<sup>2</sup> shows that within this global resource area, at least 76% (48,000 carats) of the resource is contained in an area of approximately 111,500m<sup>2</sup> at an average grade of 0.43ct/m<sup>2</sup>. SRK anticipates that grades achieved during mining could be in the order of 30% higher than estimated as a result of operational experience in the Namibian offshore environment.

SRK comments that these resource areas are all readily accessible to airlift mining, as employed by the Company's mining ship, MV DF Discoverer. The diamondiferous gravels generally lie at shallow depths within relatively thin average sediment thickness ranging from 0.5m to 2.5m conducive to high production rates and lower unit costs.

The average size of the diamonds in DP1 is estimated by SRK at 0.47ct/stone (arithmetic mean) which is significantly higher than displayed in most deposits delineated to date in the Luderitz area.

Dr. A.E. Annels is responsible for the resource estimates contained within the SRK report and is the designated Qualified Person. Dr. Annels has 39 years of postgraduate experience in exploration and mining geology and in particular, has been involved in the auditing of off-shore diamond projects and the estimation of their resources for the last 6 years. He is a Fellow of the Institution of Mining and Metallurgy (now IOM3) and thus meets all the requirements of a Qualified Person in terms of NI 43-101.

On January 29, 2007, the Company announced that diamond production using MV DF Discoverer had commenced on January 27 in the indicated resource areas defined under the joint operations agreement with Bonaparte after signing a short form mining agreement with Bonaparte. This enabled both companies to benefit from the high diamond grades identified during the late 2006 joint operations sampling programme while a more comprehensive agreement was concluded between the parties. In summary, the mining joint operations are conducted by DFI utilizing its vessel mv DF Discoverer on a 70%(DFI) : 30% (Bonaparte) shared revenue and agreed operating cost basis. The mining is being undertaken under an agreed mining plan and the short form agreement allowed an early start to joint mining operations while the full mining agreement was completed.

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On February 20, 2007, the Company announced that it had concluded a formal mining agreement with Bonaparte. Pursuant to the formal mining agreement, DFI will continue current mining with its vessel the MV DF Discoverer for a period of 6 months in 2007, with provision to continue thereafter for up to 12 months, by mutual agreement. Thereafter any additional mining will be subject to review by the parties of available resources at that time.

#### Details of Formal Mining Agreement:

A Formal Mining Agreement has been signed between DFI's 100% owned subsidiary Diamond Fields (Namibia) (Pty) Ltd ("DFN") and Bonaparte's 100% owned Namibian subsidiary, Bonaparte Diamond Mines (Namibia) (Pty) Ltd ("BDN") relating to mining operations on the Diaz Prospect 1 (DP1) Joint Operations (JO) area in Mining Licence area ML111 held by DFN.

Under the agreement, DFN has the first option to mine the Indicated Resources identified in the JO area. If mining is conducted by DFN then the gross sales value of mining production will be shared as follows: 70% share to DFN and 30% share to BDN. Agreed operational costs will be shared between the parties on the same basis. If DFN opts not to mine the resource or if DFN's option to act as Mining Operator (as defined in the agreement) is terminated or lapses within 6 months or if no mining is undertaken for a period of 6 months, then BDN will have the right to undertake mining operations. If mining is conducted by BDN then DFN will receive a royalty of 14% of gross sales value from any mining operations in the JO area. BDN will then be entitled to an 86% share of the gross sales value and will be responsible for all operational costs including mining costs.

Mining operations will be overseen by a Management Committee to comprise 5 members with representatives from DFN and BDN, the appointed Mining Operator having 3 members on the committee. The committee will meet regularly during mining operations and certain key decisions, including approval of operating costs and mine plan, will require unanimous decision by the committee. The Mining Operator will be responsible for providing all equipment and manpower needed to run the operations and carrying out the mine plan, in accordance with all regulated requirements and conditions of licence. Basic performance criteria have been set for DFN as Mining Operator. BDN will be required to contribute cost contribution by way of cash call on invoice 14 days in advance with any shortfall to be made good upon call. Where DFN is the Mining Operator, the agreement may be suspended if BDN fails to pay cash call or if its share of costs have to be offset against revenue for more than 2 consecutive months. BDN may withdraw from this agreement at any time, by giving due written notice. DFN will have the right to sell all product recovered during the tenure of this agreement pursuant to its existing marketing agreement. Associated sales costs will be paid by BDN and DFN proportionate to their revenue interests as provided for in terms of the agreement. Standard terms for conflict resolution and arbitration are included in the agreement.

Mining under the JO agreement has been continuous since commencement on January 27, 2007. JO production during the year ending June 30, 2007 has totalled 12,317 carats at average stone size of 0.44 carats/stone of which 10,566 carats were sold during that period at an average price received of \$214.45. Pursuant to the JO agreement, Bonaparte is entitled to 30% of the revenue from this production but is obligated to pay 30% of agreed operating and sales costs. In addition to the JO production, the Company produced an additional 3,336 carats of diamonds revenue which is 100% attributable to the Company. Additional sales during the year (100% attributable to DFI) totalled 4,948 carats at an average price of \$184.72.

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### *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.

### **Exploration Projects**

#### *Liberia Exploration Properties*

In July 2004, the Company entered into an option agreement with Ducor Minerals Inc. pursuant to which the Company may earn a 70% interest in Ducor's rights under two Mineral Exploration Agreements between Ducor and the Republic of Liberia (the "Gbapolu and Grand Gedeh Properties"), covering a total area of 1813.72 km<sup>2</sup>, which are prospective for diamonds and gold, respectively. This transaction was accepted by the TSX on August 27, 2004. Pursuant to this agreement, the Company is required to issue to Ducor a total of up to 1,000,000 common shares in five annual instalments of 200,000 shares each, and spend \$2,000,000 on exploration over the next four years. Ducor has the right to request \$30,000 in lieu of one-half of each annual stock issuance, and the Company has the right to pay \$60,000 in lieu of one-half of each annual stock issuance. Reference is made to the Company's News Release dated August 12, 2004 for particulars regarding this transaction. On August 24, 2004, August 24, 2005, August 24, 2006 and August 24, 2007 the Company made the first four instalments to Ducor by issuing a total of 400,000 common shares and paying the total sum of \$120,000.

The Gbapolu (Grand Cape) Property is a 1,095 km<sup>2</sup> property located in the western part of Liberia adjacent to recent kimberlite discoveries by Mano River Resources. The Grand Gedeh Property is a 719 km<sup>2</sup> concession that is located along the Cestos shear to the north of the Company's Cestos Property. These properties have been explored by DFI's reconnaissance team of Liberian geologists.

The Grand Cape property exploration program commenced in January 2005, with a reconnaissance stream sediment sampling program to explore for primary kimberlite. Artisanal diamond mining in the area was targeted initially with geologists tracking drainages feeding artisanal diamond mining sites. Sampling recovered G10 (diamond inclusion chemistry) garnets from the beginning. By the end of June 2006 the program had collected 599 stream sediment samples, excavated and sampled 66 prospecting pits and completed over 40 line kilometres of grid cutting and collection of over 500 soil samples over 3 dyke targets and two kimberlite pipe targets. In April 2006 a brief geophysical program sensing magnetic response was run over two of the dyke targets and the kimberlite pipe target with positive results. Sampling and pitting has taken place over a three kilometre dyke trend with two parallel dykes approximately 150m apart, and 3 macro diamonds (0.08 ct, 0.1 ct and 0.22 ct) were recovered during the

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pitting program. The Company is investigating the possibility of a joint venture for deployment of a bulk diamond sampling plant to Liberia to facilitate secure analysis of large (>1000 kg) samples of kimberlite. The development program for the kimberlites identified so far and for subsequent targets, including drilling to establish geometries and tonnage would then be predicated on bulk sample results.

The Grand Gedeh property hosts the Barteajam gold workings (the Barteajam is a Brazilian gold pan used by Liberian miners), an artisanal mining site where miners have been recovering coarse gold from the weathered regolith. Mapping of the workings indicates that they continue for over 5km along strike, broken by intervening swamps. The property has received a first pass of reconnaissance sampling, collecting 97 reconnaissance stream sediment and soil samples. An initial sampling grid at 50m x 100m spacing has been established over a portion of the workings, and an additional 177 samples have been collected there. Thick cover of regolith (weathered bedrock) in excess of 15 m thick makes mapping of the mineralized structures difficult and geologists have not yet discovered what controls the Barteajam mineralization. Reconnaissance sampling has found the anomaly across strike, outside the area of current mining suggesting a more tabular shape to the deposit. A program of vertical sampling of pit walls was undertaken in July 2006 to characterize the mineralization in that dimension. Follow up work will include overburden drilling to define the limits of the deposit and analysis to establish grade and tonnage.

In April 2006 DFI geologists discovered visible gold in streams draining the vicinity of the main Cestos shear along the western side of the property. Follow up work led to a grid sampling program over an area of 1.5 km x 1km. Results from processing of those samples were disappointing given the preponderance of visible gold in locally collected stream sediment samples. A follow up program in the field will investigate sampling methods including depth of pits excavated to produce the initial samples, tighter grid spacing and more detailed stream sediment work.

During 2007 the Company changed its exploration strategy from regional assessment to specific evaluation of identified exploration targets. The current focus of activity has been on a gold anomaly within the Henry Town region of the Grand Cape property, where native gold is exploited by local artisans, which previously returned gold values of up to 13g/t gold in DFI's grab samples. The gold is contained in quartz veins associated with a Birrimian (Proterozoic) age transgressive left lateral shear zone, which boudinages and juxtaposes basement gneisses and supracrustal lithologies.

Initial sampling indicates a possible maximum width of mineralization across the shear zone of up to 500 metres, with a possible semi-continuous strike length of over 7 km. To constrain the possible extent of mineralisation, an exhaustive soil sampling program over the entire western extension of the shear zone was undertaken on a 40 metre by 200 metre grid, yielding in excess of 1,400 samples. The samples are currently being analysed by fire assay in an accredited laboratory in Mali, and results are expected to be available by the end of October 2007. Although limited in number, initial results returned from the laboratory are encouraging with up to 12.75ppm gold being returned.

DFI expects to commence a trench sampling program later this year across the most promising parts of the mineralized shear zone, with a follow up drilling program provisionally scheduled for the early part of 2008. In addition, two other promising gold shows, the Cestos Shear and the Barteajam anomalies, both of which are worked for artisanal gold are scheduled for detailed investigation later this year with the commencement of the next dry field season.

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#### *Madagascar nickel exploration program*

On May 09, 2007, the Company announced that it had exercised its option to acquire the rights to the Valozoro nickel property in Madagascar and now owns 100% of these exploration rights which are valid until May 2011.

The Valozoro nickel deposit is located 60 kilometres north of the town of Fianarantsoa in south central Madagascar and is reported in the Catalogue des Principaux Gites Mineraux de Madagascar (Catalogue of Principal Mineral Deposits of Madagascar). Weathering and alteration of a harzburgite protolith has produced a type A Ni-laterite deposit up to 17 metres thick.

During 1956 and 1957, UGINE completed an extensive prospecting program of sampling pits excavated on 20 by 20 metre grid and reported an estimated resource of 3.7 million tons of lateritic ore grading 1.75% nickel containing 65,000 tonnes of contained nickel metal. This is a historical resource estimate and a Qualified Person has not done sufficient work to classify the historical estimate as current mineral resources or mineral reserves under National Instrument 43-101 ("NI 43-101"). The Company is not treating the historical estimate as current mineral resources or mineral reserves as defined in sections 1.2 and 1.3 of NI 43-101, and accordingly the historical estimate should not be relied upon.

DFI completed a reconnaissance level sampling pass over the Valozoro lateritic nickel deposit with results from the program confirming the presence of a high grade nickel deposit (the results of this program were announced in a news release dated March 4, 2004). The reconnaissance pass of sampling collected 1 meter chip and channel samples through the lateritic profile by re-visiting 18 of the more than 454 pits excavated on the property by UGINE. In addition road cuts and hillside exposures of mineralization were sampled and 170 of the pits were mapped and logged for depth.

Pit sampling was restricted to pits with a maximum depth of 8 metres (m) due to equipment constraints, while mapping shows that some pits reach a depth of 17.5 m. The shallow depth of sampling meant that results are mainly from the upper 6.6 m of lower grade boulder dominated material. Sampling returned grades between 0.61% and 1.77% nickel over thicknesses of 4 to 6 m in 10 of the 18 pits sampled in this upper horizon. Where sampling reached the serpentinised lower part of the deposit a dramatic improvement of grade was seen with values ranging between 3.5% nickel over 2m to 5.9% nickel over 1m in three pits.

Grab and chip samples collected over the deposit in road cuts and slump exposures of the laterite horizon returned Ni values as high as 8.56% nickel from the argillaceous serpentine of the exposed lower horizon.

Crushing, milling and geochemical analysis of the DFI samples was carried out by Anglo American Research Laboratories (Pty) Ltd., Johannesburg, South Africa. The samples were processed using the ICPME46A method. Mr. Randal Cullen, P.Geol, Chief Geologist for DFI at the time, was a Qualified Person under NI 43-101 and was responsible for program design and quality control of this exploration undertaken by the Company.

The Company is currently undertaking a new channel sampling program of over 400 of the existing prospecting with samples being taken at half metre intervals to determine the actual contained value of the orebody in both terms of nickel and secondary products such as cobalt. In excess of 8 000 channel samples are expected from this program. The program design is expected to enable the estimation of a measured resource in terms of National Instrument 43-101, and allow the construction and delineation of

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an orebody model to produce a mine development plan. The sampling work is expected to be completed by the end of October 2007, when the samples are scheduled to be shipped to South Africa for analyses. Final analytical and modeling results are projected to be completed by February 2008.

#### *Zambia zinc copper project*

In July 2007 the Company entered into a joint venture agreement with Lion Fields Limited ("Lions Field") for mineral exploration in a highly prospective area in western Zambia. Lion Fields, a company that is controlled by Mr. Jean-Raymond Boule, the largest shareholder of the Company, has been granted the exclusive right to conduct exploration work for copper, gold, silver, zinc, lead and germanium over a 444 square kilometer property (the "Zambia Property") in the Solwezi district of western Zambia. Management of DFI believe that the Zambia Property has the potential to host extensions to the world-class Kipushi ore-body, located immediately adjacent to the Zambia Property, within the Democratic Republic of Congo. Kipushi is one of the highest grade zinc mines in the world.

Following the acceptance of the Toronto Exchange, Lion Fields and DFI have formed a Joint Venture on an 80% (DFI) to 20% (Lion Fields) basis, for the exploration, valuation and, if justified, the development and mining of any mineral resources discovered on the Zambia Property, upon the terms and conditions set out in the Joint Venture agreement.

Pursuant to the Joint Venture agreement, DFI has reimbursed Lion Fields US\$200,000 against a portion of Lion Fields' total project costs incurred to date.

DFI is appointed operator of the Joint Venture with overall management responsibility for the prospecting operations on the Property and, among other things, will be required to incur minimum exploration expenditures of US\$200,000 over the existing term of the Zambia Property license (which is due to expire in December 2008) and US\$200,000 during each subsequent renewal term of the license, if any, in order to maintain its interest in the Zambia Property.

#### *Discontinued Projects*

In a news release dated May 9, 2007, the Company reported that following assessment of exploration data it did not plan further exploration programs on the Ammassalik nickel project in East Greenland.

Through its indirect wholly owned subsidiary, Diamond Fields (South Africa) (Pty) Ltd., the Company owned a deep-sea diamond concession off the west coast of South Africa which, due to the extreme depths which are beyond the ability of current mining technology to economically access, was allowed to lapse 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, 2007, 2006 and 2005:

	2007	2006	2005
Total revenues	\$ 2,503,030	\$ 2,916,733	\$ 5,391,621
Net loss	(5,083,532)	(6,190,160)	(3,814,248)
Net loss per share (basic and diluted)	(0.04)	(0.06)	(0.06)
Cash	8,995,041	286,887	1,351,146
Total assets	20,295,085	11,803,173	14,028,783
Working capital surplus/(deficiency) <sup>1</sup>	8,254,940	(2,243,929)	(607,573)
Total long term financial liabilities	6,478,886	4,336,996	5,466,955

1. See "Capital Resources and Liquidity"

All revenue for the year ended June 30, 2007 resulted from the sale of diamonds held in inventory or recovered during operations. A total of 15,515 carats were sold at an average price of approximately \$204.96 per carat less 3170 carats at an average price of approximately \$214.45 was attributable to joint operations partner Bonaparte Diamond Mines NL, generating revenue of \$2,503,030. Comparatively, the Company sold 15,739 carats in the 2006 financial year at an average price of \$185 per carat generating operating revenue of \$2,916,733. Production, royalty and selling expenses associated with the sale of inventory totaled \$3,752,338; whereas, these operating costs for the same period in 2006 were \$5,010,319. The lower costs resulted from production being interrupted from June 2006 to November 2006 due to the Cape Town port call for the statutory dry-docking, maintenance and upgrade programs. The Company generated an operating loss of \$1,249,308 for the year ended June 30, 2007 compared with an operating loss of \$2,093,586 for fiscal 2006.

The Company incurred general and administrative expenses of \$1,870,458 during the year ended June 30, 2007 compared to \$2,923,954 during 2006. Financing fees and interest decreased due to the note payable to Quest Capital Corporation being paid repaid in full. Professional fees increased due to the legal costs associated with significant agreements signed and a prior year under provision of audit fees. 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. Consulting fees increased due to the use of more consultants as opposed to employees. Stock based compensation decreased significantly and moved from an expense to a recovery as a result a significant number of options that were forfeited. During the current year the Company recorded a provision for impairment on certain of its exploration properties (see Note 8 to the financial statements).

The loss on sale of assets was due to the write-off of previously capitalised costs relating to an overhaul on the mining vessel, since the vessel went in for another overhaul in the current year.

Net loss for the year ended June 30, 2007 was \$5,083,532 or \$0.04 per share, compared with a net loss of \$6,190,160 or \$0.06 per share in 2006.

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#### SELECTED QUARTERLY DATA (UNAUDITED)

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

	30-June-07	31-Mar-07	31-Dec-06	30-Sept-06	30-June-06	31-Mar-06	31-Dec-05	30-Sept-05
Total Revenues	1,346,497	663,119	209,853	283,561	809,334	675,488	681,770	750,141
Net Earnings (Loss)	(1,554,633)	(754,188)	(813,289)	(1,961,422)	(1,294,097)	(2,001,957)	(1,752,580)	(1,141,526)
Net Earnings (Loss) per Share (basic and diluted)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)	(0.01)

Production on the Company's marine concessions was suspended in June 2006 for a major overhaul and recommenced in November 2006.

#### CAPITAL RESOURCES AND LIQUIDITY

At June 30, 2007, the Company had a working capital surplus of \$8,254,940 including cash of \$8,995,041 compared with a working capital deficit of \$2,243,929, including cash of \$286,887 at June 30, 2006. The increase in working capital at June 30, 2007 is primarily a result of the company raising financing in 2007.

The June 30, 2007 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. 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, certain conditions and events cast substantial doubt upon the validity of this assumption. For the period ended June 30, 2007 the company incurred a loss of \$5,083,532, and had a cash outflow of \$2,576,070 from operations.

The dry-docking of the Company's mining vessel at the beginning of the financial year-end impacted negatively on revenue and results from operations. The company's ability to continue its operations in the normal course of business is dependent upon its ability to achieve and sustain profitable operations. Alternatively, the company is dependent on continued support from shareholders and creditors.

The Financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

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#### *Standby Guarantee*

On September 1, 2006, DFI announced that it had entered into a standby guarantee agreement (the "Standby Guarantee Agreement") with Spirit Resources SARL ("Spirit") in relation to a proposed rights offering (the "Rights Offering") of the Company to raise gross proceeds of up to approximately Cdn\$2.5 Million. Spirit is controlled by the Company's major shareholder Jean-Raymond Boule. Pursuant to the Standby Guarantee Agreement, Spirit agreed to participate in a proposed Rights Offering by purchasing up to Cdn\$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 also advanced to DFI an aggregate of Cdn\$1.7 Million to be applied towards Spirit's participation in the Rights Offering.

#### *Sale of properties*

In December, 2006, the Company announced that it had entered into agreements for the sale of two real estate properties in Luderitz, Namibia to Spirit for aggregate consideration of \$320,000. The properties, each held by the Company's wholly-owned subsidiary Diamond Fields (Namibia) (Proprietary) Limited, consist of a commercial warehouse facility housing a basic diamond recovery plant designed to treat gravel recovered from small scale diver operations, and a nearby residential property containing two semi-detached houses with out buildings which have been used primarily for crew accommodations as required during transit to the Company's mining vessel. Neither property has been extensively used by the Company in recent years but should the Company require future use of the properties, Spirit has agreed to a lease-back on commercially reasonable terms. The purchase price for the properties was based upon and supported by reports of an independent Namibian property valuer.

The transaction constituted a "related party transaction" under Ontario Securities Commission Rule 61-501, but was exempted from the formal valuation and minority approval requirements of that Rule as neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the transaction, exceeded 25% of the Company's market capitalization, as determined by the directors of the Company. The transaction was unanimously approved by the directors of DFI, all of whom are independent of Spirit and Jean-Raymond Boule and also accepted by the TSX.

The proceeds from the transaction were applied to the Company's then ongoing running expenses and working cash requirements.

#### *Rights Offering*

In December 2006 the Rights Offering commenced (refer to News Release dated December 18, 2006), and on January 30, 2007, the Rights Offering expired. In January 2007 the Company issued a total of 28,036,629 common shares at a price of Cdn\$0.09 per share on exercise of rights pursuant to the Rights Offering (refer to News Release dated February 5, 2007). Pursuant to the Standby Guarantee Agreement, of the Cdn\$2,523,297 raised from the Rights Offering, an aggregate of Cdn\$1,761,825.96 was provided to Spirit through the exercise of its basic and additional subscription privileges for the issue of 19,575,844 shares under the Rights Offering. As previously disclosed, Spirit is controlled by the Company's major shareholder Jean-Raymond Boule, who following completion of the Rights Offering beneficially held, directly or indirectly, 38,174,305 common shares of the Company, representing approximately 27% of the

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then issued and outstanding share capital (as at February 5, 2007). Proceeds from the Rights Offering were 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.

#### *Credit facility Agreement*

In February 2007 the Company entered into a credit facility agreement (the "Credit Facility") with Spirit providing for the consolidation of prior debt and a new loan by Spirit of up to \$1.5 million to assist the Company with its then existing and anticipated future working capital requirements.

#### *Conversion of debt to shares*

At an extraordinary general meeting of the Company held on June 20, 2007, Diamond Fields received necessary minority shareholder approval to permit the conversion of the principal amount owing to Spirit under the Credit Facility into common shares of the Company on the basis of one common share for each \$0.15 of principal. In July 2007, Spirit converted all of the outstanding debt under the Credit Facility (being \$3,901,110.53) into 26,007,403 common shares of the Company, which were issued on the basis of one common share for each \$0.15 of principal. With the repayment of all amounts owing to Spirit under the Credit Facility, Spirit has released all of its security over DFI's assets and, together with the Company, will make the necessary filings to effect the discharge of, among other things, Spirit's first ship's mortgage over DFI's mining vessel "DF Discoverer". These discharge filings are in progress as of the date hereof.

#### US\$10M Private Placement

In May 2007, the Company completed a US\$10 Million private placement by issuing 66,666,666 common shares at \$0.15 per share, which are subject to a hold period expiring September 16, 2007. In connection with this private placement, the Company paid \$700,000 in agent fees and financial advisory fees, representing 7% of the gross proceeds received. Proceeds are being applied towards advancing the Company's exploration projects, and for working capital.

#### Commitments

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	-	3,901,110	-	-	3,901,110
Operating leases	27,234	9,631	-	-	36,885
Exploration properties leases	45,337	90,674	-	-	136,011
Total contractual obligations	72,571	4,001,415	-	-	4,073,986

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#### **TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

Following the conversion of the Company's total combined debt to Spirit of \$3,901,110.53 into 26,007,403 common shares in July 2007 (see CAPITAL RESOURCES AND LIQUIDITY), the Company no longer has any indebtedness to related parties. Following the conversion, Mr. Boule held directly or indirectly approximately 26.1% of the Company's issued and outstanding common shares (at July 26, 2007).

In December 2006, Spirit purchased two real estate properties in Luderitz, Namibia from the Company's wholly-owned subsidiary Diamond Fields (Namibia) (Proprietary) Limited for aggregate consideration of US\$320,000 (for details see Sale of Properties under CAPITAL RESOURCES AND LIQUIDITY).

In July 2007 the Company entered into a joint venture agreement with Lion Fields Limited ("Lions Field") for mineral exploration in a highly prospective area in western Zambia. Lion Fields, a company that is controlled by Mr. Jean-Raymond Boule, the largest shareholder of the Company, has been granted the exclusive right to conduct exploration work for copper, gold, silver, zinc, lead and germanium over a 444 square kilometer property (the "Zambia Property") in the Solwezi district of western Zambia. Management of DFI believe that the Zambia Property has the potential to host extensions to the world-class Kipushi ore-body, located immediately adjacent to the Zambia Property, within the Democratic Republic of Congo. Kipushi is one of the highest grade zinc mines in the world.

Following the acceptance of the Toronto Exchange, Lion Fields and DFI have formed a Joint Venture on an 80% (DFI) to 20% (Lion Fields) basis, for the exploration, valuation and, if justified, the development and mining of any mineral resources discovered on the Zambia Property, upon the terms and conditions set out in the Joint Venture agreement.

Pursuant to the Joint Venture agreement, DFI has reimbursed Lion Fields US\$200,000 against a portion of Lion Fields' total project costs incurred to date.

DFI is appointed operator of the Joint Venture with overall management responsibility for the prospecting operations on the Property and, among other things, will be required to incur minimum exploration expenditures of US\$200,000 over the existing term of the Zambia Property license (which is due to expire in December 2008) and US\$200,000 during each subsequent renewal term of the license, if any, in order to maintain its interest in the Zambia Property.

There were no related party amounts included in Accounts payable at June 2007. Accounts payable a 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, 2007 the Company was charged fees for consulting services of \$46,355 (2006 - \$115 486) by a director of the Company. There were no outstanding amounts included in accounts payable and accrued liabilities at June 30, 2007 (2006 – 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 2007, the company paid marketing expenses amounting to \$81,224 (2006 - \$73,860) to Diamond Tenders (Belgium) N.V.

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### **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 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.

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### **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, 2007 and 2006, 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.

## **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 Company 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 Company 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 Company's employees

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and contractors are strongly encouraged to avoid areas where risk of violence or other hazards may be present.

#### *Additional financing Requirement*

The Company's ability to continue its activities depends on the Company obtaining additional financing. 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 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 Company differ from those used for calculating indicated resources (probable reserves) in the 2000 feasibility study.

#### *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 Company'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 Company.

#### *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 Company 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 Company's financial position. The

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

The Company 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.

*Directors and officers of the Company may have conflicts of interest*

Certain of the directors of the Company 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 Company also participates, those directors may have a conflict of interest. These other mineral resource companies may also compete with Company 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 Company and will refrain from participating in any Board decisions concerning the matter giving rise to the conflict. In appropriate circumstances, the Company 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 Company are required to act honestly, in good faith and in the best interests of the Company. The Company's directors and senior officers have advised the Company that they intend to bring forward to the Company 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 Company is presently active as described in this Annual Information Form, for the consideration of the Company's Board of Directors. In such event, the Company will apply the procedures and mechanisms set forth above. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors

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will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

*Exchange controls may restrict the Company'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 Company will obtain the requisite approvals in the future to repay loans or pay invoices to parties outside the CMA, including companies within the Company's corporate group not resident in the CMA. Thus exchange controls may restrict the Company 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 Company'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 Company will receive for its diamonds and its revenues from mining operations.

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 Company'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 Company's profitability.

*Government regulations in foreign countries may limit the Company'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 Company'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 Company in respect of the Sea Diamonds Project will be subject to government legislation, policies and controls relating to prospecting, development, production, importing

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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 Company.

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

All aspects of the Company'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 Company'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 Company's concessions which are presently unknown to the Company 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.

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 Company 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 September 26, 2007, a total of 208,399,312 common shares of the Company were outstanding. Stock options outstanding at September 26, 2007 totalled 4,738,000 with exercise prices ranging from Cdn\$0.14 to Cdn\$0.91 per share and expiry dates between January 28, 2007 to March 18, 2012. Warrants outstanding at September 26, 2007 totalled 36,459,176 with an exercise price of Cdn\$0.40 per share and an expiry date of 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,

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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 Companys' 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.

#### **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 in view of certain weaknesses that were identified by management, with the participation of the Company's CEO, CFO and the Audit Committee, in the Company's management's discussion and analysis in respect of the fiscal year ended June 30, 2006 (the "2006 MD&A"), as contemplated by CSA Staff Notice 52-316 *Certification of Design of Internal Control over Financial Reporting*.

In the 2006 MD&A, management stated that while it believed that control over bank accounts and Company assets was adequate, it was also aware that internal control over financial reporting on an ongoing basis was 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 various factors and events as stated therein. Even though the Company stated its intentions to improve its systems of internal control and financial reporting, cash flow restrictions for the larger part of the financial year prohibited the Company from employing the necessary resources until the cash position improved. The Company has taken steps to restructure its financial division once the required cash was available to remedy the situation, but the timing was such that the benefits thereof was not significantly visible for the reporting period up to June 30 2007.

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#### *The financial close process*

The financial closing process of the Company still indicates areas that require improvement:

- Currently the company relies heavily on its ability to retain continuity in certain key staff positions in the financial division, due to the limited number of financial staff employed.
- There are a number of financial functions that are currently performed by external consultants.
- Significant delays were experienced in the process of obtaining required financial information from remote operations, which increases pressure on the financial close process.
- The Company's financial function is located in South Africa. The finance team is familiar with International Financial Reporting Standards, but is not experts in Canadian Generally Accepted Accounting Practises

To avoid any future delays in the preparation of financial statements pursuant to applicable Canadian securities laws, the Company needs to achieve the appropriate balance between appointing permanent staff and the use of external consultants, and decrease the delay in reporting from remote operations.

#### *Internal control system*

Through the process of evaluating its internal control systems, the company identified areas that required improvement regarding the internal control systems of a subsidiary company. The weaknesses can be attributed to the risks associated with remote operations. The Company took the necessary steps to resolve the situation, and will use this experience as a basis for improvements to the internal controls of existing and future remote operations.