

*Third Quarter Report*



*March 31, 2007 and 2006*

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

**Financial Statements**

Consolidated Balance Sheets at March 31, 2007 (un-audited – prepared by management) and June 30, 2006

Un-audited (prepared by management) Consolidated Statements of Loss and Deficit for the three and nine months ended March 31, 2007 and 2006

Un-audited (prepared by management) Consolidated Statements of Cash Flows for the three and nine months ended March 31, 2007 and 2006

Notes to the un-audited (prepared by management) Consolidated Financial Statements

# **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 un-audited consolidated financial statements of Diamond Fields International Ltd. and the notes thereto for the three and nine months ended March 31, 2007 and with the audited annual consolidated financial statements and the notes thereto for the year ended June 30, 2006. The quarterly financial statements at March 31, 2007 are un-audited and have not been reviewed by the Company's external auditor. The effective date of this MD&A is May 14, 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 may be required pursuant to applicable laws. Readers are therefore cautioned not to place undue reliance on any forward-looking statements.

### **OVERVIEW**

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

Production from the Company's Namibian marine diamond concessions continued through the quarter and a total of 4,643 carats were produced during the quarter and 3,564 carats sold at an average price of \$215 per carat. Subsequent to the end of the quarter a second diamond sale of 2,029 carats was completed realizing a price of \$239 per carat. Exploration activities during the quarter ended March 31, 2007 were focused on the Company's diamond and gold properties in Liberia and the nickel property in Madagascar.

The Company successfully completed a fully subscribed Rights Offering raising C\$2.5 million in late January 2007 and in February also concluded a credit facility for \$1.5 million and consolidation of debt with Spirit Resources SARL, a related party. In May the Company also announced its intention to raise up to \$10 million through a private placement of shares (see "Capital Resources and Liquidity" and "Transactions and Balances with Related Parties" below).

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### **RESULTS OF OPERATIONS**

#### **Mining Activities Overview**

As announced on November 20, 2006 the Company's vessel MV DF Discoverer resumed mining operations on November 19 in the Diaz Reef area in mining licence ML111 offshore Luderitz, Namibia following last year's port call for statutory dry docking, repair, maintenance and upgrade programs. During the quarter ended March 31, 2007 operations continued in the Diaz Reef area of mining licence ML111 until late January when the vessel was re located to the resource area identified under the Joint Operations Agreement with Bonaparte Diamond Mines NL ("Bonaparte"). Production and sales details can be found below under "*Mining Operation*".

#### *Joint Operations Agreement for Resource Development in ML111*

Diamond Fields announced on August 18, 2006 that it signed a Joint Operations Agreement with a 100% owned subsidiary of Bonaparte, a company listed on the Australian Stock Exchange, for the continued development of marine diamond resources within Diamond Fields' ML111 offshore Luderitz, Namibia.

By issuing 1.5 million Bonaparte shares to Diamond Fields and completing a NAM\$3.0 million (\$0.45 million) sampling program within six months in the 1,200,000m<sup>2</sup> seabed area designated under this agreement as Diaz Prospect 1 ("DP1"), Bonaparte can earn a 30% interest in any indicated category marine diamond resources (JORC and NI 43-101 code compliant) as defined by their program. This agreement includes an option for Bonaparte to explore an additional 400,000m<sup>2</sup> area (DP2) by issuing an additional 0.5 million shares to DFI. All shares issued under this agreement are subject to a six month hold period. Further detail and information is provided in the MD&A for the year ended June 30, 2006.

On November 6, 2006 the Company announced encouraging results from the successful 35 day resource development sampling program conducted by Bonaparte and completed in late October 2006. A total of 291 gem quality diamonds weighing 135.92 carats (ct) were recovered.

A total of 577 grid-based samples were taken, out of which 159 samples were positive and multiple diamond recoveries (more than 1 stone) were made at 56 sites. Based on groups of closely associated positive results, a total of 9 discrete zones of near-continuous mineralisation covering a substantial cumulative area of approximately 290,000m<sup>2</sup>, have been identified.

Sampling was undertaken on a grid of approximately 50m x 40m spacing and the average sample size was approximately 2.6m<sup>2</sup>. This is sufficient density for estimation of NI 43-101 compliant resources to the "Indicated" category. In terms of the joint operations agreement Bonaparte appointed independent experts, Steffen Roberson & Kirsten Consulting ("SRK") of Cardiff, United Kingdom to analyse these sampling results and carry out delineation, grade estimation and classification of resources in compliance with the NI 43-101 and JORC codes.

All diamonds recovered during the sampling and any future mining programs will be sold subject to Diamond Fields' marketing agreement with Diamond Tenders (Belgium) NV.

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On January 4, 2007 Diamond Fields announced that independent consulting company SRK had estimated an Indicated Resource of 63,000 carats in the DP1 joint operations area, derived from sampling conducted under the joint operations agreement with Bonaparte.

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. SRK has given its approval to the reference to the SRK report and information derived therefrom in this MD&A in the form and context in which it appears.

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### *Mining Operations*

On January 29, 2007 the Company announced that diamond production had commenced on January 27, 2007 in the indicated resource areas defined under the joint operations agreement with Bonaparte after signing a short form mining agreement with Bonaparte.

DFI and Bonaparte concluded a short form mining agreement to enable both companies to benefit from the high diamond grades identified while a more comprehensive agreement was concluded between the parties. In summary, the mining joint operations are being 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.

Production and sales updates were provided in news releases dated February 7 & 20, 2007, March 14, 2007 and April 25, 2007. Under the Bonaparte joint operations a total of 4,038 carats were recovered during the quarter ended March 31, 2007 of which 1,343 carats were sold for \$346,342 at an average price of \$258 per carat. Subsequent to the end of the quarter a second diamond sale of 2,029 carats was completed realizing revenue of \$484,692 (\$239 per carat).

In addition, a further 2,221 carats were sold during the quarter for revenue of \$420,730 (\$189 per carat) from mining prior to the commencement of joint operations with Bonaparte.

Mining to date in the DP1 area has also shown that the mineralization and payable grades are more extensive than originally defined by the sampling data and mining has thus progressed into some areas not included in the original resource estimate and mine plans. The average size of diamonds recovered in DP1 (0.49 carats/stone to March 31, 2007) is significantly higher than displayed in most deposits delineated to date in the Luderitz area and is reflected in the higher sales prices.

### **Exploration Projects**

#### *Liberia Exploration Properties*

As announced in previous public disclosures, Diamond Fields entered into an option agreement in August 2004 with Liberia based Ducor Minerals Inc. ("Ducor"), pursuant to which it may earn an interest in Ducor's rights held under two mineral exploration agreements between Ducor and the Republic of Liberia. The Gbapolu (Grand Cape) property is prospective for diamonds and gold, while the Grand Gedeh property is a gold prospect. Both properties are roughly equal in size covering a total area of approximately 1,800km<sup>2</sup>. The Company may earn 70% of Ducor's interest by issuing to Ducor 1,000,000 shares in five annual installments of 200,000 shares each (300,000 shares issued to date and the Company has paid \$90,000 in lieu of 300,000 shares), and by spending \$2,000,000 on exploration before August 2008 (approximately \$1,020,000 spent to March 31, 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.

Nine kimberlite targets have been generated on the Grand Cape property. Two targets are pipe-like bodies; three are inferred dyke trends in excess of 500m long. The source kimberlite for the remaining indicator mineral anomalies has not as yet been identified. Ground magnetic anomalies are present, coincident with interpreted kimberlite pipes and dykes on the three targets surveyed to date. The Company is investigating options for bulk sampling of the kimberlites. Sampling grids over a 500m

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width and one kilometer length over high grade gold anomalies have been completed on both Grand Cape and Grand Gedeh properties.

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

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

These targets will require further investigation with geophysics (EM and/or IP) and drilling to confirm dimensions. Options for bulk sampling to determine grade of the kimberlitic material are being investigated.

Artisinal mining of high grade quartz veins assaying 13 grams/ton gold across 1.5m vein width on the Grand Cape property at Henry Town, and visible gold in stream sediment samples (2) from both the Henry Town area and the Grand Gedeh property adjacent to the Cestos Shear Zone prompted the Company to proceed with soil sampling and mapping grids over these targets to explore along and across strike extensions of this mineralization. Initial soil sample grids have been completed over these targets with the collection of over 300 samples. Sampling results did not definitively define the source of the gold anomaly on either the Grand Gedeh Nico Grid or the Grand Cape Point Point grid although spot high values were obtained. Following review of sampling methodology further intensive grid sampling is planned for both areas.

### *Madagascar Nickel Property*

In a press release dated May 9, 2007 the Company announced that it has 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 southcentral Madagascar and is reported in the Catalogue des Principaux Gites Mineraux de Madagascar (Catalogue of Principal Mineral Deposits of Madagascar). During 1956 and 1957, UGINE completed an extensive prospecting program and reported an estimated resource of 3.7 million tons of lateritic ore (derived from an altered peridotite host) 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.

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DFI has 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 Diamond Fields International Ltd. at the time, was a Qualified Person as defined by National Instrument 43-101 and was responsible for program design and quality control of this exploration undertaken by Diamond Fields.

DFI's exploration plans include drilling and continuation of the sampling of existing pits to build a definitive picture of tonnage and nickel grade distribution in the deposit as well as prospecting in the vicinity for similar additional mineralization.

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.

### *Greenland Nickel Exploration Project*

On December 28, 2005 the Company reported that Inco Ltd. had advised Diamond Fields that it does not plan further work on the Company's Ammassalik nickel project in East Greenland and thereby retains no interest in the land package compiled by Diamond Fields. The Company is not planning further exploration programs. Accordingly, a provision for impairment of associated accumulated exploration costs has been recorded.

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### SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the nine months ended March 31, 2007 and 2006:

	2007	2006
Total revenues	\$ 1,156,533	\$ 2,107,399
Net loss	(3,528,899)	(4,896,063)
Net loss per share (basic and diluted)	(0.03)	(0.05)

Net loss for the nine months ended March 31, 2007 was \$(3,528,899) or \$(0.03) per share, compared with a net loss of \$(4,896,063) or \$(0.05) per share in 2006. All revenue for the nine months ended March 31, 2007 resulted from the sale of diamonds held in inventory or recovered during operations. A total of 6,291 carats were sold at an average price of approximately \$200 per carat generating revenue of \$1,260,378 of which \$103,903 was attributable to Bonaparte (30%) in terms of the joint operations mining agreement. Comparatively, the Company sold 11,309 carats in the nine months ended March 31, 2006 at an average price of \$186 per carat generating revenue of \$2,107,399. Production, royalty and selling expenses associated with the sale of inventory totaled \$1,990,529; whereas, these operating costs for the same period in 2006 were \$3,322,750. The Company generated an operating loss of \$(833,996) for the nine months ended March 31, 2007 compared with an operating loss of \$(1,215,351) for the nine months ended March 31, 2006. The lower costs and lower sales in 2007 resulted from lost mining time between June and November related to the Cape Town port call for the statutory dry-docking, maintenance and upgrade programs.

The Company incurred general and administrative expenses of \$1,541,180 during the nine months ended March 31, 2007 compared to \$2,732,155 during 2006. Salaries and Benefits decreased from \$828,136 to \$463,153, Investor Relations from \$131,564 to \$64,055 and Travel and Accommodation decreased from \$144,871 to \$69,319. These changes are all as a result of the Company's change of location of its head office from Vancouver to Cape Town, South Africa, significant reduction in administrative staff and management restructuring. No financing fees were paid in this period, compared to \$304,371 at March 31, 2006. Interest paid decreased from \$457,772 to \$121,919, due to the settlement of the Quest Capital loan during the previous financial year.

### SELECTED QUARTERLY DATA

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

	31-Mar-07	31-Dec-06	30-Sept-06	30-June-06	31-Mar-06	31-Dec-05	30-Sept-05	30-June-05
Total Revenues	663,119	<sup>1</sup> 209,853	<sup>1</sup> 283,561	809,334	675,488	681,770	750,141	Nil
Net Earnings (Loss)	(754,188)	(813,289)	(1,961,422)	(1,294,097)	(2,001,957)	(1,752,580)	1,141,526	(2,048,849)
Net Earnings (Loss) per Share (basic and diluted)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)	(0.01)	(0.03)

1. Production using the Company's mining vessel mv Diamond Fields Discoverer commenced in June of 2005. Production was interrupted from June 2006 to November 2006 due to the Cape Town port call for the statutory dry-docking, maintenance and upgrade programs.

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### **CAPITAL RESOURCES AND LIQUIDITY**

At March 31, 2007, the Company had a working capital surplus of \$247,433 including cash of \$292,592 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 March 31, 2007 is primarily a result of the consolidation of the Note Payable due to Spirit Resources, into a new credit facility agreement. The outstanding balance on the note payable, which was due upon request as at June 2006, now forms part of the total outstanding balance under the new credit facility agreement, which is due in February 2009. Because of this, the outstanding balance is no longer classified as a current liability, which improved the current working capital position by approximately \$2.2 million.

The March 31, 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.

#### *Rights Offering*

On February 5, 2007 the Company announced that the Rights Offering had been successfully concluded and a total of 28,036,629 common shares of the Company were subscribed for at a price of C\$0.09 per share for total gross proceeds of approximately C\$2,523,297. Pursuant to the standby guarantee agreement entered into between Spirit and the Company in connection with the Rights Offering (as announced in the Company's news release dated September 1, 2006), of the approximately C\$2,523,297 raised in the Rights Offering, an aggregate of C\$1,761,825.96 was provided by Spirit through the exercise of its basic and additional subscription privileges for the issue of 19,575,844 shares under the Rights Offering. Spirit is controlled by DFI's major shareholder, Jean-Raymond Boule, who, following completion of the Rights Offering, beneficially holds, directly or indirectly, 38,174,305 common shares of the Company representing approximately 27% of the Company's 141,332,646 issued and outstanding shares at the time.

#### *Credit Facility Transaction and Consolidation of Debt*

On February 27, 2007 the Company announced that it had entered into a credit facility agreement (the "Credit Facility Agreement") with Spirit Resources SARL ("Spirit") providing for a loan by Spirit of \$1.5 million to assist the Company with its existing and anticipated future working capital requirements.

As detailed in DFI's continuous disclosure filings with Canadian securities regulators (including the Company's Rights Offering Circular dated December 14, 2006), the Company is indebted to Spirit pursuant to a promissory note issued by the Company dated June 9, 2004, as amended (the "2004 Note"). As of February 15, 2007, an aggregate of \$2,298,689.26 in outstanding principal and accrued and unpaid interest was due to Spirit under the 2004 Note (the "2004 Note Amount"). Pursuant to the terms of the 2004 Note (and as approved by the shareholders of DFI at its annual general meeting held on November 16, 2005), the 2004 Note Amount is convertible, in whole or in part at the election of Spirit, into common shares of DFI at the price of C\$0.25 per share.

As previously announced, by letter agreement dated June 2, 2005 Spirit agreed to postpone

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repayment of the amount owing under the 2004 Note and DFI agreed to secure such amount by all of DFI's and its subsidiaries' property and assets.

The Credit Facility Agreement, in addition to providing a loan in the amount of \$1.5 million to DFI for its working capital purposes, consolidates all of DFI's prior debt to Spirit (consisting of the 2004 Note Amount and other debt in the aggregate amount of \$182,944.86 as reported in the Company's financial statements) for an aggregate principal amount of \$3,981,634.12 owing under the Credit Facility Agreement (the "Principal"). Effective February 20, 2007, such Principal accrues interest under the Credit Facility Agreement at the rate of 10% per annum, payable monthly with the first payment having commenced on the last business day of February 2007. DFI is entitled to pre-pay any part of the Principal prior to the maturity date of February 20, 2009.

The Credit Facility Agreement further provides that all amounts owing thereunder will be secured by all of DFI's and its subsidiaries' property and assets, including a first ship's mortgage over DFI's mining vessel "DF Discoverer". The Credit Facility Agreement contains other customary representations, warranties and covenants. A copy of the Credit Facility Agreement, including the schedules thereto which comprise the security instruments, will be filed on the SEDAR website ([www.sedar.com](http://www.sedar.com)) under the Company's profile as a material contract.

As Spirit is an insider of the Company, the transaction contemplated by the Credit Facility Agreement constituted a "related party transaction" under Rule 61-501 of the Ontario Securities Commission (the "OSC Rule"). However, as a loan or credit facility transaction, the transaction was exempted from the formal valuation requirements of the OSC Rule. The Company was also exempted from the shareholder approval requirements of the OSC Rule provided by the exemption contained in section 5.7(1)7 (*Loan to Issuer, No Equity or Voting Component*) of the OSC Rule. In reaching these conclusions, the directors of the Company (each of whom are independent of Mr. Boulle and Spirit) unanimously determined that the Credit Facility Agreement is on commercially reasonable terms that are not less advantageous to the Company than if a similar credit facility were obtained from a person or company dealing at arm's length with the Company, and that the Credit Facility Agreement and the transactions and agreements contemplated thereby are fair and reasonable to the Company and are in the best interests of the Company and its shareholders. The Credit Facility Agreement has been accepted by the Toronto Stock Exchange ("TSX").

The Credit Facility Agreement also provides that the Principal and all outstanding accrued and unpaid interest may become convertible, in whole or in part at the election of Spirit, into common shares of DFI, subject to receipt of necessary approvals of TSX and the minority shareholders of the Company as required under the OSC Rule and the rules and policies of the TSX. The Company has agreed to hold a special meeting of its shareholders to seek the necessary shareholder approval of such conversion feature priced at the lowest conversion rate currently available under the rules of the TSX and will provide further details in due course. Until such approvals are obtained, no amount owing under the Credit Facility Agreement will be convertible into common shares of the Company, except in respect of the 2004 Note Amount which remains convertible pursuant to the terms of the 2004 Note as previously approved by shareholders.

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### *Private Placement and Shareholders Meeting to Approve Convertibility of Spirit Credit Facility*

On May 3, 2007 the Company announced that it has entered into an engagement letter with Ferris, Baker Watts Inc. ("FBW") to raise up to \$10 million through a private placement, on a best-efforts agency basis, of up to 66,666,666 common shares of the Company at a price of \$0.15 per share (or C\$0.175 per share), to certain US and offshore institutional accredited investors all of which are at arm's length to the Company. At or following closing, the Company will pay up to 6% in placement agent fees for the financing and financial advisory fees, representing total fees of up to \$600,000 payable in cash. Proceeds of the financing will be applied towards advancing the Company's exploration projects and for general working capital.

In the same news release the Company also announced that it has called an extraordinary general meeting of its shareholders to seek approval of the convertibility of all amounts owing to Spirit Resources SARL ("Spirit") under the Company's credit facility with Spirit. At the meeting, the Company's shareholders (excluding Mr. Boule and his associates and affiliates) will be asked to approve that all amounts owing under the credit facility (approximately \$4 million) may be converted into common shares of the Company, in whole or in part at the election of Spirit, on the basis of \$0.15 per share. This conversion price is consistent with the pricing of the private placement with arm's length purchasers referred to above.

The extraordinary general meeting is scheduled for June 20, 2007 and the meeting materials, including a management information circular containing full details of the transaction, are expected to be filed on SEDAR and mailed to shareholders of record on or about May 23, 2007.

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

See "*Credit Facility Transaction and Consolidation of Debt*" above for details of Related Party Transactions with Spirit Resources SARL. Spirit is controlled by Mr. Jean-Raymond Boule who beneficially owns, directly or indirectly, an aggregate of 38,174,305 common shares of DFI representing approximately 27% of DFI's issued and outstanding shares as of the date hereof.

### **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

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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.

### **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.

# **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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### **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 March 31, 2007 and June 30, 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.

### **OUTSTANDING SHARE DATA**

At May 14, 2007, a total of 141,732,646 common shares of the Company were outstanding. Stock options outstanding at May 14, 2007 totalled 5,383,000 with exercise prices ranging from C\$0.14 to C\$0.91 per share and expiry dates between January 28, 2008 to March 18, 2012, respectively. Warrants outstanding at May 14, 2006 totalled 35,483,676 with an exercise prices of C\$0.40 per share and an expiry date of June 2, 2008. Each such warrant is exercisable at the exercise price to purchase one common share of Diamond Fields on or before the applicable expiry date.

### **CONTINUATION FROM YUKON TERRITORY TO BRITISH COLUMBIA**

Effective March 27, 2007 the Company has Continued from the Yukon to British Columbia and its new Constatng documents were filed on Sedar on April 3, 2007. Shareholders aapproved the Continuance at the company's Annual and Special general Meeting held December6, 2006.

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Notice of Auditor Review of Financial Statements**

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Notice regarding Auditor Review of Financial Statements

To the Shareholders of  
Diamond Fields International Ltd.

The interim consolidated financial statements of Diamond Fields International Ltd for the three and nine months ended March 31, 2007 have not been reviewed by the Company's auditors.

Diamond Fields International Ltd.  
Cape Town, South Africa  
May 14, 2007

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Balance Sheets

(Expressed in U.S. dollars)

	March 31, 2007 (Unaudited)	June 30, 2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 292,592	\$ 286,887
Accounts receivable	133,785	47,266
Inventories	761,619	502,564
Prepaid expenses	39,747	41,116
	1,227,743	877,833
MINERAL PROPERTIES (Note 3)	8,549,947	8,148,381
PROPERTY, PLANT AND EQUIPMENT	2,383,537	2,776,959
	\$ 12,161,227	\$ 11,803,173
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 980,310	\$ 908,142
Current portion of note payable (Note 4)	-	2,213,620
	980,310	3,121,762
LOAN PAYABLE (Note 4)	\$ 3,719,484	-
FUTURE INCOME TAXES	1,215,234	1,215,234
	5,915,028	4,336,996
CONTINUING OPERATIONS (Note 1)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 5)		
Authorized - Unlimited number of common shares without par value		
Issued & outstanding: 141,732,646 (June 30, 2006: 113,173,157)	35,931,301	33,709,774
Contributed Surplus	2,209,901	2,122,507
Equity portion of note payable (Note 4)	709,496	709,496
Deficit	(31,599,765)	(28,070,866)
Cumulative translation adjustments	(1,004,734)	(1,004,734)
	6,246,199	7,466,177
	\$ 12,161,227	\$ 11,803,173

APPROVED BY THE BOARD:

*"Roger Daniel"*

Director

*"Rod Baker"*

Director

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

	Three months ended March 31,		Nine months ended March 31,	
	2007	2006	2007	2006
DIAMOND SALES	\$ 663,119	\$ 675,488	\$ 1,156,533	\$ 2,107,399
OPERATING COSTS				
Production costs (including depletion)	731,878	915,404	1,876,990	3,079,466
Royalties, selling and marketing	84,930	82,458	113,539	243,284
	\$ 816,808	997,862	\$ 1,990,529	\$ 3,322,750
	(153,689)	(322,374)	(833,996)	(1,215,351)
GENERAL AND ADMINISTRATIVE EXPENSES				
Amortization	8,463	15,714	25,149	37,624
Consulting	68,241	59,517	96,933	118,988
Financing fees	-	-	-	304,371
Interest on loan and note payable (Note 4)	54,203	128,324	121,919	457,772
Investor relations	16,758	14,797	64,055	131,564
Maintenance	5,593	11,826	14,463	33,013
Office	67,144	65,544	210,385	264,293
Professional fees	164,998	70,317	334,701	247,296
Regulatory	14,811	25,991	53,709	57,631
Salaries and benefits	194,437	214,319	463,153	828,136
Stock-based compensation	64,192	36,034	87,394	106,596
Travel and accommodation	33,782	46,151	69,319	144,871
	692,622	688,534	1,541,180	2,732,155
OTHER INCOME (EXPENSE)				
Interest and other income	12,239	12,690	13,866	29,783
Loss on the sale of property, plant and equipment	-	(20,109)	(1,230,918)	(20,109)
Provision for impairment of exploration properties	-	(976,888)	-	(976,888)
Foreign exchange	79,884	(14,718)	63,329	(100)
	92,123	(999,025)	(1,153,723)	(967,314)
EARNINGS (LOSS) BEFORE INCOME TAXES	(754,188)	(2,009,933)	(3,528,899)	(4,914,820)
RECOVERY OF FUTURE INCOME TAXES	-	7,976	-	18,757
NET EARNINGS (LOSS) FOR THE PERIOD	(754,188)	(2,001,957)	(3,528,899)	(4,896,063)
DEFICIT, BEGINNING OF PERIOD	(30,845,577)	(24,774,812)	(28,070,866)	(21,880,706)
DEFICIT, END OF PERIOD	\$ (31,599,765)	\$ (26,776,769)	\$ (31,599,765)	\$ (26,776,769)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)	131,885	113,150	119,320	98,222

See accompanying Notes to the Consolidated Financial Statements

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Cash Flows

(Un-audited – prepared by management)

(Expressed in U.S. dollars)

	Three months ended March 31,		Nine months ended March 31,	
	2007	2006	2007	2006
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (754,188)	\$ (2,001,957)	\$ (3,528,899)	\$ (4,896,063)
Items not involving use of cash:				
Depreciation and depletion	130,551	195,808	296,842	562,437
Accrued interest	(5,896)	34,763	-	101,717
Non-cash interest expense	30,099	93,561	91,919	282,793
Financing fees	-	-	-	304,371
Recovery of future income taxes	-	(8,051)	-	(18,832)
Stock-based compensation	64,192	36,034	87,394	106,596
Loss on sale of PPE	-	20,109	1,230,918	20,109
Provision for impairment of exploration properties	-	976,888	-	976,888
Net change in non-cash operating working capital items (Note 7)	(886,818)	(329,373)	(272,037)	(518,655)
	<b>(1,422,060)</b>	<b>(982,218)</b>	<b>(2,093,863)</b>	<b>(3,078,639)</b>
<b>FINANCING ACTIVITIES</b>				
Share capital issued, net of issue costs	2,208,664	28,614	2,221,527	5,011,614
Proceeds (Repayment) of loan payable	(368,745)	-	1,413,945	(1,588,212)
	<b>1,839,919</b>	<b>28,614</b>	<b>3,635,472</b>	<b>3,423,402</b>
<b>INVESTING ACTIVITIES</b>				
Expenditures on mineral properties	(218,862)	(121,281)	(401,566)	(294,272)
Proceeds on disposal of PPE	-	4,416	316,908	4,416
Expenditures on other PPE	46,155	(59,560)	(1,451,246)	(364,979)
	<b>(172,707)</b>	<b>(176,425)</b>	<b>(1,535,904)</b>	<b>(654,835)</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>245,152</b>	<b>(1,130,029)</b>	<b>5,705</b>	<b>(310,072)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>47,440</b>	<b>2,171,103</b>	<b>286,887</b>	<b>1,351,146</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 292,592</b>	<b>\$ 1,041,074</b>	<b>\$ 292,592</b>	<b>\$ 1,041,074</b>

See accompanying Notes to the Consolidated Financial Statements

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three and nine months ended March 31, 2007 and 2006

(Un-audited – prepared by management)

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

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### 1. CONTINUING OPERATIONS

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.

### 2. BASIS OF PRESENTATION

These interim financial statements do not contain all the information required by Canadian generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent audited annual financial statements of the Company for the year ended June 30, 2006.

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

### 3. MINERAL PROPERTIES

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

	March 31, 2007	June 30, 2006
Namibian sea concessions	\$ 7,214,840	\$7,215,401
Other exploration properties	1,335,107	932,980
	<u>\$ 8,549,947</u>	<u>\$8,148,381</u>

#### *Greenland Nickel Exploration Project*

On December 28, 2006 the Company reported that Inco Ltd. had advised Diamond Fields that it does not plan further work on the Company's Ammassalik nickel project in East Greenland and thereby retains no interest in the land package complied by Diamond Fields. Previously, Diamond Fields, Inco, and Nuna entered into agreements whereby Inco may have earned an interest in exploration licenses held by the Company or optioned by Diamond Fields from Nuna, on Ammassilik Island in East Greenland. The Company is not currently planning further exploration programs. Accordingly, a provision for impairment of associated accumulated exploration costs has been recorded in the current period.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three and nine months ended March 31, 2007 and 2006

(Un-audited – prepared by management)

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

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### 4. LOAN PAYABLE

The loan payable is payable to Spirit Resources SARL ("Spirit") consisting of The Credit Facility Agreement, which consolidates prior debt and provides a \$1.5 million credit facility, for an aggregate principal amount of \$3,719,484. Effective February 20, 2007, such principal accrues interest under the Credit Facility Agreement at the rate of 10% per annum, payable monthly with the first payment having commenced on the last business day of February 2007. DFI is entitled to pre-pay any part of the Principal prior to the maturity date of February 20, 2009.

The Credit Facility Agreement, in addition to providing a credit facility in the amount of \$1.5 million to DFI for its working capital purposes, consolidates all of DFI's prior debt to Spirit (consisting of the 2004 Note Amount and other debt in the aggregate amount of \$182,944.86 as reported in the Company's financial statements) for an aggregate principal amount of \$3,981,634.12

As at March 31, 2007 Spirit has advanced \$1,237,800 from the available \$1.5 million facility to DFI, which brings the total loan amount as at March 31, 2007 to \$3,719,484.

For a more detailed description of the loan please refer to "*Credit Facility Transaction and Consolidation of Debt*" under the heading "*CAPITAL RESOURCES AND LIQUIDITY*" in the "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

### 5. SHARE CAPITAL

During the nine months ended March 31, 2007 the following share transactions took place:

400,000 common shares were issued for \$74,978 (C\$88,000) pursuant to the Company's Share Bonus Plan. These bonus shares were issued to the Company's non-executive directors as payment for outstanding directors' fees for the period April 2005 to March 2007 in accordance with the Company's Executive Incentive Plan;

28,036,629 common shares were issued for \$2,133,866 (C\$2,523,296) in the exercising of rights as part of the Rights Offering dated 31 January 2007;

22,860 common shares were issued for \$2,083 (C\$2,335) pursuant to the Company's Share Purchase Plan; and

100,000 common shares with a fair value of \$10,780 (C\$ 12,000) were issued as partial compensation for an option to acquire a working interest in certain exploration properties.

During the nine months ended March 31, 2007, 196,000 options were granted at prices ranging between C\$0.22 and C\$0.27 per share. The options vest over three years and have expiry dates ranging between September 1, 2010 and March 18, 2012. The fair value of stock based compensation for the options during the period was estimated at \$173,133. The

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three and nine months ended March 31, 2007 and 2006

(Un-audited – prepared by management)

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

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Company used the Black-Scholes option pricing model to estimate the value of the options at each grant date. Additionally, 245,000 options were cancelled at prices between C\$0.27 and C\$0.66 per share and expiry dates between March 12, 2007 and August 31, 2010.

At May 14, 2007, a total of 141,732,646 common shares of the Company were outstanding. Stock options outstanding at May 14, 2007 totalled 5,383,000 with exercise prices ranging from C\$0.14 to C\$0.91 per share and expiry dates between January 28, 2008 to March 18, 2012, respectively. Warrants outstanding at May 14, 2006 totalled 35,483,676 with an exercise price of C\$0.40 per share and an expiry date of June 2, 2008. Each such warrant is exercisable at the exercise price to purchase one common share of Diamond Fields on or before the expiry date.

### 7. CASH FLOW INFORMATION

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

	Three months ended		Nine months ended	
	March 31		March 31	
	2007	2006	2007	2006
(Increase) decrease in:				
Accounts receivable	\$ (91,875)	\$ (4,413)	\$ (86,519)	\$ (54,883)
Inventory	(195,583)	(204,655)	(259,055)	(496,203)
Prepaid expenses	(19,377)	(3,446)	1,369	(37,301)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(579,983)	(116,859)	72,168	69,732
	<u>\$ (866,818)</u>	<u>\$ (329,373)</u>	<u>\$ (272,037)</u>	<u>\$ (518,655)</u>

### 8. SEGMENTED INFORMATION

The Company considers its business to consist of one reportable business segment. All of the Company's revenue for the three and nine month periods ended March 31, 2007 and 2006 was earned in Namibia.

### 9. OTHER RELATED PARTY TRANSACTIONS

Besides the loan described in detail under "Credit Facility Transaction and Consolidation of Debt" under the heading of "CAPITAL RESOURCES AND LIQUIDITY" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations", there were no other related party transactions for the period.