

*Consolidated Financial Statements of*

**DIAMOND FIELDS INTERNATIONAL LTD.**

*June 30, 2008 and 2007*

## **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) "Edward Wayne Malouf"  
Wayne Malouf  
President and Chief Executive Officer  
September 28, 2008



**BDO Dunwoody LLP**  
Chartered Accountants

600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC, Canada V6C 3L2  
Telephone: (604) 688-5421  
Telefax: (604) 688-5132  
E-mail: [vancouver@bdo.ca](mailto:vancouver@bdo.ca)  
[www.bdo.ca](http://www.bdo.ca)

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## **Auditors' Report**

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To the Shareholders of  
Diamond Fields International Ltd.

We have audited the consolidated balance sheet of Diamond Fields International Ltd. as at June 30, 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were audited by other auditors who issued their opinion without reservation on September 28, 2007.

(signed) "DBO Dunwoody LLP"

Chartered Accountants  
Vancouver, British Columbia  
September 25, 2008

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Balance Sheets

June 30, 2008 and 2007

(Expressed in U.S. dollars)

	2008	2007
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	3,991,690	8,995,041
Accounts receivable	391,248	131,122
Prepaid expenses and other	363,524	51,395
Inventories (Note 4)	631,905	617,025
	<b>5,378,367</b>	9,794,583
INVESTMENTS (Note 5)	115,262	104,219
MINERAL PROPERTIES (Note 6)	9,030,957	8,330,913
PLANT AND EQUIPMENT (Note 7)	1,402,910	2,065,370
	<b>15,927,496</b>	20,295,085
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	990,472	1,539,643
NOTES PAYABLE (Note 8)	-	3,677,034
FUTURE INCOME TAXES (Note 9)	1,234,407	1,262,189
	<b>2,224,879</b>	6,478,866
NATURE OF OPERATIONS AND GOING CONCERN (Note 1)		
COMMITMENTS (Note 17)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	48,941,596	45,031,029
Contributed surplus (Note 11)	3,002,581	2,669,107
Equity portion of note payable (Note 8)	-	275,215
Accumulated deficit	(37,247,870)	(33,154,398)
Accumulated other comprehensive loss (Note 12)	(993,690)	(1,004,734)
	<b>13,702,617</b>	13,816,219
	<b>15,927,496</b>	20,295,085

APPROVED BY THE BOARD:

*“Edward Wayne Malouf”*

Director

*“Gooroodeo Sookun ”*

Director

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Consolidated Statements of Loss, Comprehensive Loss and Deficit**  
Years ended June 30, 2008 and 2007  
(Expressed in U.S. dollars)

	2008	2007
DIAMOND SALES	3,327,707	2,503,030
OPERATING COSTS		
Production costs (including depreciation, depletion and amortisation)	4,249,737	3,490,886
Royalties, selling and marketing	321,976	261,452
	4,571,713	3,752,338
	(1,244,006)	(1,249,308)
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	97,694	35,082
Consulting	183,175	206,583
Investor relations	80,334	109,058
Maintenance	-	21,333
Office	155,885	268,236
Professional fees	528,801	615,234
Regulatory	91,880	88,266
Salaries and benefits	563,484	594,670
Stock-based compensation	58,259	(162,896)
Travel and accommodation	152,730	94,892
	1,912,242	1,870,458
OTHER INCOME (EXPENSE)		
Interest and other income	152,791	15,292
Gain on conversion of note payable (Note 8)	96,395	-
Interest on loan and notes payable	(340,830)	(266,365)
Other interest expense	(13,786)	(152,750)
Loss on disposal of plant and equipment	(3,189)	(1,234,157)
Write-off of exploration properties (Note 6)	(88,345)	(8,167)
Other expenses	(177,258)	(289,180)
Foreign exchange (loss)/gain	(590,784)	18,516
	(965,006)	(1,916,811)
LOSS BEFORE INCOME TAXES	(4,121,254)	(5,036,577)
FUTURE INCOME TAX (EXPENSE)/RECOVERY (Note 9)	27,782	(46,955)
NET LOSS FOR THE YEAR	(4,093,472)	(5,083,532)
OTHER COMPREHENSIVE LOSS:		
Unrealized loss on available-for-sale financial assets (Note 12)	(31,123)	-
COMPREHENSIVE LOSS	(4,124,595)	(5,083,532)
BASIC AND DILUTED LOSS PER SHARE (Note 18)	(0.09)	(0.19)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's) (Note 18)	46,615	26,662
DEFICIT, BEGINNING OF YEAR	(33,154,398)	(28,070,866)
NET LOSS FOR THE YEAR	(4,093,072)	(5,083,532)
DEFICIT, END OF YEAR	(37,247,870)	(33,154,398)

See accompanying Notes to the Consolidated Financial Statements.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Cash Flows

Years ended June 30, 2008 and 2007

(Expressed in U.S. dollars)

	2008	2007
<b>OPERATING ACTIVITIES</b>		
Loss	<b>(4,093,472)</b>	(5,083,532)
Items not affecting use of cash		
Gain on conversion of notes payable	<b>(96,395)</b>	
Amortization and depletion	<b>961,153</b>	822,017
Non-cash interest expense	<b>333,117</b>	136,157
Loss on disposal of plant and equipment	<b>3,189</b>	1,234,157
Write-off of exploration properties	<b>88,345</b>	8,167
Recovery of future income taxes	<b>(27,782)</b>	46,955
Stock-based compensation	<b>58,259</b>	(162,896)
Net change in non-cash operating working capital items (Note 13)	<b>(1,136,307)</b>	422,905
	<b>(3,909,893)</b>	(2,576,070)
<b>FINANCING ACTIVITIES</b>		
Share capital issued, net of issue costs	-	11,321,255
(Repayment of)/proceeds from loan payable	-	1,602,472
	-	12,923,727
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral properties	<b>(929,303)</b>	(410,552)
Proceeds on disposal of property, plant and equipment	-	316,908
Purchases of property, plant and equipment	<b>(164,155)</b>	(1,545,859)
	<b>(1,093,458)</b>	(1,639,503)
(DECREASE)/INCREASE IN CASH	<b>(5,003,351)</b>	8,708,154
CASH, BEGINNING OF YEAR	<b>8,995,041</b>	286,887
CASH, END OF YEAR	<b>3,991,690</b>	8,995,041
<b>OTHER SUPPLEMENTARY INFORMATION:</b>		
Cash interest paid	<b>20,359</b>	133,944
Cash income taxes paid	-	-

Supplementary disclosure of non –cash financing and investing activities (Note 13)

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

**Years ended June 30, 2008 and 2007**

**(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”, “Diamond Fields” or “DFI”) 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, which 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, 2008 the company incurred a loss of \$ 4,093,472 (2007: \$5,036,577) and had a cash outflow of \$ 3,909,893 (2007: \$ 2,576,070) from operations.

To date, the Company has financed its activities through the issuance of equity securities and debt financing. The Company expects to use similar financing techniques in the future and is pursuing such additional sources of financing sufficient to support its operations until such time that its operations become self-sustaining. Although there is no assurance that the Company will be successful in these actions, management believes that it will be able to secure the necessary financing to enable the Company to continue as a going concern. 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, 2008 and 2007

(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 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 Company's consolidated financial statements from the 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, 2008 and 2007

(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 consolidated statement of loss.

#### 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, 2008 and 2007

(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% (2007 - 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. The net book value of the Company's investment in this company is nil (2007 - nil)

Other 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 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 is 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, 2008 and 2007

(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, whereby historical cost includes expenditures 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.

Depreciation 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
Mining vessel and plant equipment	One to six years
Office equipment	Six years

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

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

#### (i) *Notes payable*

The note payable is a compound financial instrument. Accordingly, the fair value of the conversion privilege forming part of the note was classified as part of shareholders' equity with the balance of the proceeds classified as a financial liability. The carrying value of the financial liability was being accreted to the principal amount as additional interest expense over the term of the note. The note was converted to common shares during the year ended June 30, 2008.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

(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 10. 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 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.

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, 2008 and 2007

(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, 2008 or 2007.

#### **New Accounting Policies**

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

Effective July 1, 2007, the Company adopted the Canadian Institute of Chartered Accounts ("CICA") Handbook Sections 3855, "Financial Instruments – Recognition and Measurements", 3861, "Financial Instruments – Presentation and Disclosure", 1530 "Comprehensive Income", 3685, "Hedges", and 1506, "Accounting Changes". The main requirements of these new standards and the resulting financial statement impact are described below.

Consistent with the requirements of the new accounting standards, the Company has not restated any prior period amounts as a result of adopting the accounting changes.

#### Section 3855, Financial Instruments – Measurement and Disclosure

This section 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 instruments are classified into one of five categories: held-to-maturity, loans and receivables, available for sale financial assets, held-for-trading and other liabilities;
- All financial instruments are to be measured at fair value on initial recognition. Available for sale financial assets and held-for trading financial instruments are measured at fair value subsequent to initial recognition. Loans and receivables, held to maturity financial assets and other liabilities are measured in subsequent periods at amortized cost using the effective interest rate method;

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

(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 Hedges, Accounting Changes and Equity (continued)*

- Subsequent measurement and fair value changes for all financial instruments other than available-for-sale financial assets are recognized into earnings. For available-for-sale financial assets subsequent measurement and fair value changes are recorded in other comprehensive income until derecognized or impaired at which time the amounts are recorded into earnings; and
- All derivative financial instruments are to be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Upon adoption, the Company classified its cash as held-for-trading and accounts receivable as loans and receivable with the amounts recorded at fair value. The investment (Notes 5 and 12) was classified as available-for-sale and an adjustment of \$42,167 was recorded to measure the investment at its then fair value with a corresponding entry to the deficit. Accounts payable and accrued liabilities and notes payable were classified as other liabilities with the amounts recorded at fair value.

#### Section 3861, Financial Instruments – Presentation and Disclosure

This section addresses the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. This section also revises the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provides several new requirements for disclosure about fair value.

#### Section 1530, Comprehensive Income

This section 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, Hedges

This section 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 does not currently hold any financial instruments designated for hedge accounting.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

(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 Hedges, Accounting Changes and Equity (continued)*

#### Section 1506, Accounting Changes

This section revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook sections discussed in this note.

#### Future Accounting Changes

- (p) *Capital Disclosures, Financial Instruments – Disclosures and Presentation, Goodwill and intangible assets and Inventories*

On December 1, 2006, the CICA issued three new accounting sections: Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These new sections are effective for interim and annual financial statements for fiscal years commencing on or after October 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, ("Section 3064") replacing Section 3062, *Goodwill and other intangible assets* ("Section 3062") and Section 3450, *Research and development costs*. Various changes have been made to other standards to be consistent with the new Section 3064.

Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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

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October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2009.

In October 2007, the CICA issued Handbook Section 3031 “*Inventories*”. This section requires that inventories be measured at the lower of cost and net realizable value. This section is effective for fiscal years beginning on or after January 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2008.

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

(q) *International Financial Reporting Standards*

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (“IFRS”) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company’s consolidated financial statements has yet to be determined.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

(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, 2008 and 2007

(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 the Black-Scholes option pricing 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, 2008 and 2007

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

### 4. INVENTORIES

	<u>2008</u>	<u>2007</u>
Diamond inventory	346,782	261,369
Materials and supplies	285,123	355,656
	<u>631,905</u>	<u>617,025</u>

### 5. INVESTMENTS

The investment comprises 1.5 million (2007 - 1.5 million) shares held in Bonaparte Diamond Mines, a listed entity on the Australian Stock Exchange, the fair value of which was \$115,262 as at June 30, 2008 (2007: \$146,386). As the investment is classified as available-for-sale, the decrease in fair value has been recorded to accumulated other comprehensive income.

### 6. MINERAL PROPERTIES

	<u>2008</u>	<u>2007</u>
Namibian sea concessions	6,750,417	6,995,548
Other exploration properties	2,280,540	1,335,365
	<u>9,030,957</u>	<u>8,330,913</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.

#### **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 (400,000 shares has been issued to Ducor to date and the Company has paid \$120,000 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. In the current year, the company issued 100,000 (2007: 100,000) shares to Ducor (Note 10). Qualifying expenditures under the terms of the agreement amounted to \$2,189,006 as at June 30, 2008. Ducor has the right to request \$30,000 in lieu of one-half of each annual stock issue, and Diamond Fields has the right to pay \$60,000 in lieu of one-half of each annual stock issue. The Company may withdraw from the project at any time.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

(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*

During fiscal 2008 Company has halted its assessment of some early-stage exploration properties. As such, the costs previously capitalized in respect of these properties, in the amount of \$88,345, has been written off at year end.

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 prior year an additional amount of \$8,167 was written off relating to the under accrual of previous exploration costs invoiced in 2007.

### 7. PLANT AND EQUIPMENT

	2008			2007
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Automobiles	110,155	72,047	38,108	33,881
Office equipment	260,596	137,385	123,211	33,257
Mining vessel and plant equipment	2,937,227	1,695,636	1,241,591	2,325,282
	<b>3,307,978</b>	<b>1,905,068</b>	<b>1,402,910</b>	<b>2,065,370</b>

Depreciation charged on property, plant and equipment for the year included in the Statement of Loss and Deficit, amounted to \$863,459 (2007: \$748,187).

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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

### 8. NOTE PAYABLE

	<u>2008</u>	<u>2007</u>
Opening balance	3,677,034	2,213,620
Accrued interest	320,471	266,365
Transfer from accounts payable	-	182,995
Advances received pursuant to new credit agreement	-	1,419,477
Repayments including interest	-	(130,208)
Conversion to common shares	(3,901,110)	-
Gain on conversion of note payable	(96,395)	-
Deduct portion allocated to equity	-	(275,215)
<u>Ending balance</u>	<u>-</u>	<u>3,677,034</u>

On February 20, 2007, a Credit Facility Agreement was signed with Spirit Resources SARL ("Spirit"), a company controlled by a significant shareholder of the Company, which consolidated a previous note payable with an additional advance of \$1.5M. The new agreement stipulates that the principal balance would accrue interest at 10% and is payable in full at maturity on February 20, 2009. The facility was 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 was convertible, at the note holder's 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 was charged to income as accretion expense using the effective interest method.

On July 26, 2007, as consideration for full and final payment of all amounts owing under the Credit Facility, Spirit converted the principal amount of \$3,901,110 into common shares of the Company on the basis of one common share for each \$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 were 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. In addition as a result of the conversion of the notes the Company recorded a gain \$96,395, being the balance of the accrued interest.

In addition, due to the conversion of the note, the portion of the note allocated to equity has been taken to the statement of loss as additional interest expense.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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

### 9. INCOME TAXES

Future income tax assets and liabilities at June 30, 2008 and 2007 arise from the following:

	<u>2008</u>	<u>2007</u>
Future income tax assets		
Plant and Equipment	161,820	175,767
Loss carry-forwards	7,845,480	7,871,547
Valuation allowance	(5,471,131)	(5,465,902)
Net future income tax assets	2,536,169	2,581,412
Future income tax liabilities		
Inventories	156,818	344,745
Mineral properties	3,613,758	3,498,856
Future income tax liabilities, net	(1,234,407)	(1,262,189)

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

	<u>2008</u>	<u>2007</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	(1,277,589)	(1,628,198)
Add (deduct):		
Foreign tax rate differences	(534,735)	(871,960)
Non-taxable/deductible items	412,814	(9,120)
Tax benefits of losses not recognized	1,371,728	2,556,233
Future income taxes (recovery)/expense	(27,782)	46,955

In connection with the change in future enacted tax rates in Canada, the opening future income tax asset were reduced by \$522,700.

The Company has Canadian tax loss carry-forwards at June 30, 2008 of approximately \$10,802,000 (2007: \$ 9,887,000), which expire as to \$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, \$1,736,000 in 2027 and \$1,390,000 in 2028. The Company also has foreign tax loss carry-forwards at June 30, 2008 of approximately \$9,410,000 in Namibia and \$92,000 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 and interest on certain Canadian income tax filings of up to \$785,000. No amount has been provided for because the authorities have not yet made a determination and the Company has filed the returns on a voluntary disclosure basis. Such amount, if any, will be recognized in the period in which it is likely such determination will result in an amount payable.

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. Such amount will be recognized in the period in which it is likely such determination will result in additional amounts payable, if any.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

(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, 2006 are as follows:

	Number of Shares	Amount
	<hr/>	<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/>	<hr/>
Balance, June 30, 2007	208,399,312	45,031,029
Shares issued for non-cash consideration		
Acquisition of interest		
in exploration property (Note 6)	100,000	9,457
Shares issued for conversion of note payable (note 8)	26,007,403	3,901,110
	<hr/>	<hr/>
Balance, June 30, 2008	234,506,715	48,941,596

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# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

(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.

100,000 common shares with a fair value of \$9,457 (Cdn\$9,000) 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.

Subsequent to June 30, 2008, another 100,000 common shares, on a pre stock-consolidation basis (note 18), were issued as the fifth stage and final 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, 2008 and 2007

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

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### 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, 2006	1,727,849	5,123,000	\$ 0.45
Options granted	(1,250,000)	1,250,000	0.22
Options cancelled	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
Options forfeited	2,998,000	(2,998,000)	\$ 0.34
Balances, June 30, 2008	4,681,989	1,740,000	\$ 0.44

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# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

(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, 2008:

Number Outstanding	Options Outstanding		Options Exercisable	
	Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
		(Expressed in Canadian dollars)		(Expressed in Canadian dollars)
600,000	0.23	0.70	600,000	0.70
50,000	0.26	0.70	50,000	0.70
25,000	0.42	0.91	25,000	0.91
90,000	0.48	0.80	90,000	0.80
100,000	0.16	0.27	100,000	0.27
50,000	0.17	0.27	50,000	0.27
50,000	0.08	0.14	50,000	0.14
775,000	3.72	0.22	775,000	0.22
1,740,000		0.44	1,740,000	0.44

At June 30, 2008 and 2007, the U.S. dollar equivalent of the weighted average exercise price per share for the options outstanding and the options exercisable was \$0.44 and \$0.44, respectively.

The estimated fair value of stock options granted in 2008 was \$nil (2007 \$173,138) with a weighted average exercise price of \$nil (2007 - \$0.25; Cdn\$0.22) 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:

	2008	2007
Dividend yield	None	None
Annual volatility	- %	100.0 %
Risk-free interest rate	- %	4.07 %
Expected life	-	5 years

#### Share purchase warrants

As at June 30, 2008 there were no share purchase warrants outstanding as they all expired on June 2, 2008.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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

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### 10. SHARE CAPITAL (Continued)

Share purchase warrants (continued)

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

Compensation warrants

As at June 30, 2008, the Company had no outstanding (2007 – 621,500) non-transferable compensation warrants entitling holders to purchase 621,500 common shares at an exercise price of Cdn \$0.40 expiring June 2, 2008.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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

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### 11. CONTRIBUTED SURPLUS

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	2,669,107	2,122,507
Add (deduct) amounts arising from:		
Stock-based compensation expense/(forfeiture)		
Employees	58,259	(162,896)
Transfer from equity portion of interest-bearing debt (Note 8)	275,215	709,496
<b>Balance, end of year</b>	<b>3,002,581</b>	<b>2,669,107</b>

Since the note payable has been converted to share capital during the year the equity portion of the note payable has been realised and transferred to contributed surplus.

During the year ended June 30, 2007, the previous note payable has been consolidated with the new loan based on a credit facility agreement signed this year (note 8), the previous compound financial instrument was deemed fully repaid and therefore the equity portion of the note payable was realised and transferred to contributed surplus.

### 12. ACCUMULATED OTHER COMPREHENSIVE LOSS

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	(1,004,734)	-
Adjustment on opening balance due to the adoption of new handbook section for financial instruments (Note 2 (o))	42,167	-
Reclassification of cumulative translation adjustment (Note 2 (c))	-	(1,004,734)
Unrealized loss on available-for-sale financial assets	(31,123)	-
<b>Balance, end of year</b>	<b>(993,690)</b>	<b>(1,004,734)</b>

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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

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### 13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	<u>2008</u>	<u>2007</u>
(Increase) decrease in:		
Accounts receivable	(260,126)	(83,856)
Inventories	(14,881)	(114,461)
Prepaid expenses	(312,129)	(10,279)
Increase in:		
Accounts payable and accrued liabilities	(549,171)	631,501
	<u>(1,136,307)</u>	<u>422,905</u>

Supplemental disclosure of non-cash investing and financing activities:

	<u>2008</u>	<u>2007</u>
Investing and financing activities:		
Shares issued for acquisition of interest in exploration property	9,457	10,780
Conversion of note payable	(3,901,110)	-
Shares issued for conversion of note payable	3,901,110	-

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# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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

### 14. SEGMENTED INFORMATION

At June 30, 2008, the Company operates in four main geographical locations listed below. Other operations comprise South Africa and Cayman Islands and these do not constitute a separate reportable segment.

The segment results for the year ended 30 June 2008 are as follows:

	Head Office	Namibia	Madagascar	West Africa	Other	Total
Diamond Sales	-	3,327,707	-	-	-	3,327,707
Net Loss for the year	(1,750,286)	(2,320,589)	(4,013)	(50,704)	32,120	(4,093,472)
Cash	3,580,583	50,918	752	177,654	181,784	3,991,690
Accounts receivable		391,248	-	-	-	391,248
Prepaid expenses	995	354,483	367	1,669	6,009	363,524
Inventories	-	631,905	-	-	-	631,905
Investments	115,262	-	-	-	-	115,262
Mineral Properties	-	6,750,417	203,711	1,788,381	288,448	9,030,957
Property, plant and equipment	86,670	1,261,395	-	47,356	7,490	1,402,910
Total assets	3,783,510	9,440,366	204,830	2,015,060	483,731	15,927,496
<b>Significant Items</b>						
Depreciation, depletion and amortization	112,234	813,679	-	32,977	2,263	961,153
Interest expense	348,072	6,544	-	-	-	354,616

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

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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

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### 15. FINANCIAL INSTRUMENTS

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.

### 16. 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, 2008 the Company was charged fees for consulting services of \$40,114 (2007: \$46,355) by directors of the Company.

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 2008, the company paid marketing expenses amounting to \$103,301 (2007: \$81,224) to Diamond Tenders (Belgium) N.V.

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

### 17. 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>2008</u>	<u>2007</u>
No later than 1 year	3,637	27,234
Later than 1 year and no later than 5 years		9,631
Later than 5 years	-	-
	<u>3,637</u>	<u>36,865</u>

#### Expansion of Joint Operations Agreement

Joint Operations with Bonaparte Diamond Mines NL, started in January 2007 in the Dias Reef joint operations area within DFI's MIL111 mining license and due to sharp increases in fuel and certain other supplies, the parties concluded that the economic return of mining the resources so far identified within the joint operation area does not warrant moving into the next phase of joint operations which ended on 20 May 2008. As provided by the Joint Operations Mining Agreement between Diamond Fields Namibia (Pty) Ltd and Bonaparte Diamond Mines NL, the parties agreed to share the operations costs, diamond marketing costs

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

**Years ended June 30, 2008 and 2007**

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

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and gross sales proceeds from production in proportion of 65% to Diamond Fields Namibia (Pty) Ltd and 35% to Bonaparte Diamond Mines NL.

Due to the loss making situation, Diamond Fields Namibia (Pty) Ltd has made a claim to Bonaparte Diamond Mines NL in respect of their share of cost, net of their share of revenue.

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

On July 24, 2007, following acceptance by the Toronto Stock Exchange, the Company successfully concluded a Joint Venture Agreement (the "Agreement") with Lion Fields Limited ("Lion Fields"), a company controlled by significant shareholder of the Company, for mineral exploration in western Zambia.

Lion Fields 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.

The Company and Lion Fields have formed a Joint Venture on an 80% (DFI) and 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 Agreement.

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

The Company 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.

## **18. SUBSEQUENT EVENTS**

Subsequent to year end the Company implemented the five (5) for one (1) share capital consolidation approved by the shareholders at the Annual and Special Meeting of the Company held on December 3, 2007. The Toronto Stock Exchange has confirmed that the common shares of the Company commenced trading on a consolidated basis at the opening on September 25, 2008. Basic and diluted loss per share amounts have been updated on a retroactive basis to reflect the stock consolidation.

# **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, 2008. The effective date of this MD&A is September 28th, 2008. 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 during the year ended June 30, 2008 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, 2008 on Diamond Fields' Namibian marine concessions utilising its own vessel mv DF Discoverer yielded 21,235 carats. A total of 20,298 carats were sold during the financial year (average price received per carat \$242.15). Of this production, the revenue from 20,246 carats (average price \$242.33) was attributable to joint operations under the Company's joint operations agreement with Bonaparte Diamond Mines NL (see RESULTS OF OPERATIONS, *Mining Vessel DF Discoverer* below). At year end, 2,657 carats were held in inventory. They were subsequently sold at an average price of \$256.02 per carat. Revenue generated in the 2008 financial year amounted to \$3,327,707 (net of amounts attributable to our joint operations partner). Operating costs during the 2008 financial year were \$4,571,713 resulting in an operating loss of \$1,244,006.

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

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

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### RESULTS OF OPERATIONS

#### Marine Mining and Exploration Activities

##### *Namibia Mining License ML 111*

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 (the "ML 111 Agreement"). Under the ML 111 Agreement, Bonaparte was required to: 1) issue 1.5 million Bonaparte shares to DFI and an additional 500,000 shares if Bonaparte accessed the Dias Point 2 ("DP2") area; and 2) complete a NAM\$3.0M (US\$0.45M) sampling program within six months in the area designated under the agreement. Upon doing so, 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. 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.

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. On February 20, 2007, the Company announced that it had concluded a formal mining agreement with Bonaparte.

JO production during the year ending June 30, 2008 has totalled 20,246 (2007: 12,317 carats) carats at average stone size of 0.39 carats/stone (2007: 0.44 carats/stone) of which 20,246 carats (2007: 10,566 carats) were sold during that period at an average price received of \$ 242.33 (2007: \$214.45). Pursuant to the JO agreement, Bonaparte was entitled to 30% (35% as from 11 July 2007) of the revenue from this production but was obligated to pay 30% (35% as from 11 July 2007) of agreed operating and sales costs. Subsequent to mutual agreement between the Company and BDN, JO ceased on May 22, 2008. As from May 23, 2008, the Company produced 2,657 carats of diamonds 100% attributable to the Company. Additional sales during the year (70% attributable to DFI) totalled 51.78 carats at an average price of \$ 170.39.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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### *Updated Technical Report on Sea Diamonds Project*

In December 2007 Bonaparte Diamond Mines NL completed a mines sampling program in the ML111 Joint Operations area offshore Namibia. The Preliminary results indicated a 68% increase in the number of samples with positive diamond recovery, compared to the previous year's programme. The number of positive samples in which more than one diamond was recovered (multiple diamond samples) also increased by 85% over the 2006 operations. A total of 451 diamonds weighing approximately 160 carats were recovered from the 290 positive samples during the recently completed 2007 JO sampling programme. The programme was undertaken at Bonaparte's expense using the De Beers owned dedicated diamond sampling vessel mv Douglas Bay on a sampling grid of approximately 50m by 40m with an average footprint size of approximately 2.1m<sup>2</sup> per sample in sediments up to 4m thick. Gravel in the size range +1.5mm to -12mm was screened out for processing and diamond recovery.

In July 2008 the Company contracted new geophysical survey over its Namibian marine concessions to Underwater Surveys Ltd., a NI 43-101 compliant company. The survey, comprising 555 line kilometres of multi-beam, high resolution seismic and bathymetry data, was commissioned over the Marshall Forks region of the ML111, and the Company's shallow water concession, ML32. Data acquisition was successfully completed in July 2008, using the mv T.B. Davy as the survey platform. Northwest of the Marshall Forks region the survey confirmed the presence of a defined channel structure approximately 30 metres in width, striking southwards over a traceable length in excess of 1200 metres. The structure lies within the Marshall Forks resource domain which has historically yielded elevated diamond recoveries, and to which the structure may be related. The survey also covered Conical Bay located approximately 500 meters to the east of Marshall Forks, and which the Company regards as having good potential for developing high-grade lunate strand deposits. Audit surveys of Marshall Forks were also completed to accurately define remaining resources. Survey data from Boat Bay Rocks and Boat Bay North in ML32 were also collated to develop the Company's mid to shallow water assets.

### **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 was 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 August 24, 2007 and August 24, 2008 the Company made the five instalments to Ducor by issuing a total of 500,000 common shares and paying the total sum of \$150,000. DFI has also informed Ducor that cumulative expenditure to June 30, 2008 reached USD 2,189,006. As at August 31, 2008, cumulative expenditure on Liberia exploration reached USD 2,345,594.

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The Gbapolu (Grand Cape) Property is located in the western part of Liberia adjacent to kimberlite discoveries by Mano River Resources. The Grand Gedeh Property 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. After evaluation of the exploration data, the Company voluntarily partially retroceded sections of the Grand Cape and Grand Gedeh properties back to the Liberian Government during the 2007 license renewals. The Grand Cape property originally covering a surface area of 1,095km<sup>2</sup> was subdivided in to two license blocks, termed the Grand Cape and Henry Town blocks, encompassing surface areas of 399.4km<sup>2</sup> and 161.5km<sup>2</sup> respectively. The Grand Gedeh permit was reduced from a superficial area of 719km<sup>2</sup> to 191.8km<sup>2</sup>

Exploration of the Grand Cape property 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 located near the village of Camp Alpha. 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. Ten kimberlitic anomalies have been located to date. 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 3km 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 pitting program. In 2006, DFI geologists located kimberlite in outcrop forming a blow of approximately 3 hectares north of the village of Camp Alpha. Reconnaissance exploration of the western sector of the property was undertaken during the 2006-2007 field season, with a further 173 stream sediment samples being collected.

A preliminary assessment of shear associated artisanal gold working within the Henry Town region of the Grand Cape licence was undertaken in 2005. A coarse grid reconnaissance soil sample grid on a 40 metre by 200 metre grid over returned values up to 2,210 ppb Au, whilst grab samples from mineralised quartz veins returned gold values up to 13 g/t. A follow up soil sampling program was undertaken in 2007 on a 20 metre by 200 metre sampling grid over a strike length of 4km. A total of 1,370 samples were assayed, of which 100 samples returned gold ("Au") values equal to or greater than 0.1 g/t, 17 samples returned values greater than 0.5g/t Au, and 9 samples returned values greater than 1g/t Au. The highest recorded value returned by the soil samples was 15.06 g/t Au. These data have been combined with a prior soil sampling program sampled on a 200 m by 40 m grid undertaken in 2005 to produce a gold soil sample anomaly map indicating near continuous gold mineralization over the 5.5km of strike length of the shear zone sampled using a value of 0.02 g/t Au to define the anomaly limits. The current sampled limits of the anomaly encompass a surface area greater than 3.5km<sup>2</sup>. An additional 7,000 soil sample based on a 5 metre by 25 metre grid infilling program were collected during the 2008 field season. Of these 1,500 samples have been analyzed.

Further mineralization of the Henry Town shear zone to the west southwest and to the east northeast, beyond the limits of the current sample grid, is indicated by stream sediment samples returning gold anomalies. Just under 50% of the estimated strike length of 11.7km of the Henry Town shear zone situated within the limits of the Henry Town permit has now been sampled. A secondary splay shear zone to the Henry Town structure, located 1.5km to the south near the village of Guyama, which indicated

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gold mineralization on the basis of stream sediment sampling undertaken by DFI, has returned gold values of up to 34.6g/t Au from grab samples of mineralized quartz.

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 is developed over the prospect. Reconnaissance sampling has found the anomaly across strike, outside the area of current mining suggesting a more tabular shape to the deposit covering approximately 5km<sup>2</sup>. A program of vertical sampling of pit walls was undertaken in July 2006 to characterize the mineralization in that dimension. Mapping undertaken by DFI geologist in 2008 have identified two type of mineralisation at the in the Birimian/Archaen Series (Transitional Series) in the Barteajam area. The gold deposits appear related to two successive hydrothermal events followed by supergene enrichment:

- **Hydrothermal (hypogene) events:**

An initial stage of mineralization is spatially associated with sericitized (hydrothermally altered) felsic intrusives. It consists of stockworks developed in the peripheral zone of the intrusives and in the reactive host rock. Contact metamorphism is limited to the immediate neighbourhood of the intrusions. The paragenetic sequence is defined by the presence of pyrite + gold, arsenopyrite, sphalerite, galena and sulphates. A second mineralization stage is related to the emplacement of late to post granodioritic to dioritic intrusions. The mineralization is mainly found as stockworks and remobilized mineralization. Contact metamorphism associated with these intrusions is extensive in the Barteajam area.

- **Supergene event:**

Supergene alteration (weathering) is thought to be quite young in age (< 15Ma?). Weathering had the following effects on mineralization:

- i) Oxidation of sulphides;
- ii) Concentration of metals in saprolite due to volume reduction, mostly by dissolution of carbonates in the presence of acidic solutions generated by sulphide oxidation;
- iii) Concentration of gold in laterite to form a surficial umbrella that extends farther than the saprolitized hypogene mineralization.

The supergene event created economical concentrations of gold within the saprolite and laterite horizons in the Barteajam area.

Regional exploration of the Grand Gedeh property was completed in 2006 with 214 stream sediment samples being collected. 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

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program over an area of 1.5km 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.

DFI expects to commission a multi-purpose drilling rig during the 2008 – 2009 field season to commence an extensive evaluation of the Barteajam and Henry Town gold prospects.

### *Madagascar nickel exploration program*

On May 9, 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 60km 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.

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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.

In 2007, the Company undertook a new channel sampling program of 425 of the existing prospecting pits with samples being taken at half metre intervals. Sampling and field work were undertaken by Rawtech, South Africa, a NI43-101 compliant company. A total of 5,142 samples were collated, with 2551 metres of pits logged. The bulk samples were shipped to the ALS Chemex Group laboratories in South Africa, an accredited institution, and analysed by the ME-ICP61a method. Values up to 7.94% nickel were returned from a serpentinized zone, whilst the saprolitic zone yielded an average weighted value of 1.75% nickel. The data is currently being modelled to produce a JORC NI43-101 compliant measured resource estimate by Rawtech.

### *Zambia zinc copper project*

In July 2007, the Company entered into a joint venture agreement with Lion Fields Limited ("Lion Fields") 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 believes 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 by the Toronto Stock Exchange ("TSX"), Lion Fields and DFI 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. Regional exploration on the PLLS 311 exploration license in Northern Zambia adjacent to the Kipushi copper zinc mine has been completed. From a review of published core drilling data undertaken by Gecamines, the Company has been able to establish the continuation of the Kipushi orebody in to the Republic of Zambia over a minimum strike distance of 180 metres traversing the international border at a depth of approximately 1,000 metres below ground level. Two other areas of potential base metal mineralization interest have also been identified on the property. This includes the Katwishi copper zinc anomaly, located approximately 1km to the northwest of the Kipushi ore body. The anomaly is genetically similar to the Kipushi deposit, being associated with late stage faulting of the Kakontwe Limestone, and is thought to be related to the same mineralizing episode as the former. The anomaly was previously drilled by American Mineral Fields to an effective depth of 252 metres, encountering statistically significant copper and zinc mineralization. Evidence derived from modeling the Kipushi ore body by DFI suggest by analogy, that lateral propagation of the mineralizing fluids was the dominant, and economic base metal concentrations may be located within the Katwishi anomaly at depth. The second anomalous area comprises a zone near the village of Yowela, approximately 15km to the east of Kipushi, of copper clearings and cupriferous gossans developed within the Lower Kundelungu sediments.

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DFI have commenced reconnaissance field work on the property in 2007, with 53 stream sediment samples, 41 soil samples, and 23 grab samples being collected to date.

The Company's renewal application for PLLS 311 has been filed and is pending.

### BOARD CHANGES

In October 2007, Roger Daniel resigned as a director of the Company, and R. Edward Flood and John B. Sisay were appointed as directors. On December 24, 2007 the Company announced the appointment of Wayne Malouf as a director and as President and Interim Chief Executive Officer, effective January 1, 2008. This followed the announcement in October 2007 that Roger Daniel, the Company's former President, was leaving the Company at the end of December 2007. Mr. Malouf also assumed the position of Chairman of the Board on January 17, 2008.

On May 1, 2008 the Company announced that Gooroodeo (Mahen) Sookun has been appointed as Chief Financial Officer of the Company, succeeding Waldo Pienaar, who has resigned effective April 30, 2008, to pursue other business interests. In July 2008, Mr. Flood resigned as a director.

The Board is currently comprised of six (6) directors, being Wayne Malouf, Mahen Sookun, Earl Young, Gregg Sedun, Rod Baker and John Sisay.

### CORPORATE STRUCTURE STREAMLINING

In 2008 the Company began a systematic streamlining of its corporate structure. Inactive subsidiaries were, or are in the process of being dissolved. As of June 30, 2008, the following subsidiaries were dissolved: Namibian Diamond Sales; Diamond Fields (Norway) Inc.; Diamond Fields (DRC) Inc.; Diamond Fields (Angola) Inc. On September 30, 2008, Diamond Fields (Greenland) Inc. will be dissolved.

### SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the years ended June 30, 2008, 2007 and 2006:

	2008	2007	2006
Total revenues	\$ 3,327,707	\$ 2,503,030	\$ 2,916,733
Net loss	(4,093,472)	(5,083,532)	(6,190,160)
Net loss per share (basic and diluted) <sup>2</sup>	(0.09)	(0.19)	(0.06)
Cash	3,991,690	8,995,041	286,887
Total assets	15,927,496	20,295,085	11,803,173
Working capital surplus/(deficiency) <sup>1</sup>	4,387,895	8,254,940	(2,243,929)
Total long term financial liabilities	2,224,879	6,478,886	4,336,996

1. See "Capital Resources and Liquidity"

2. Basic and diluted loss per share has been updated to reflect the 5 for 1 share consolidation, see "Share Transactions"

All revenue for the year ended June 30, 2008 resulted from the sale of diamonds held in inventory or

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recovered during operations. A total of 20,298 carats were sold at an average price of approximately \$242.15 per carat less 3,170 carats at an average price of approximately \$242.15 was attributable to joint operations partner Bonaparte Diamond Mines NL, generating revenue of \$3,327,707. Comparatively, the Company sold 15,515 carats in the 2007 financial year at an average price of \$204.96 per carat generating operating revenue of \$2,503,033. Production, royalty and selling expenses associated with the sale of inventory totaled \$4,571,713; whereas, these operating costs for the same period in 2007 were \$3,752,338. The Company generated an operating loss of \$1,244,006 for the year ended June 30, 2008 compared with an operating loss of \$1,249,308 for fiscal 2007.

The Company incurred general and administrative expenses of \$1,912,242 during the year ended June 30, 2008 compared to \$1,870,458 during 2007. Professional fees decreased due to a fall in legal and accounting costs. Salaries and benefits decreased because of group restructuring and redundancies. Consulting fees for the year decreased due to lesser accounting consultancy following restructuring. No stock options were issued during the year and the charge for the year was due to the graded vesting of the option plan already issued in prior years. The recovery of stock based compensation expense in the prior year was primarily due to a significant number of options that were forfeited that year. Travel and accommodation cost increased due to geological works. Net loss for the year ended June 30, 2008 was \$4,093,472 or \$0.09 per share, compared with a net loss of \$5,083,532 or \$0.19 per share in 2007.

### SELECTED QUARTERLY DATA (UNAUDITED)

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

	30-June-08	31-Mar-08	31-Dec-07	30-Sept-07	30-June-07	31-Mar-07	31-Dec-06	30-Sept-06
Total Revenues	1,308,599	682,006	726,143	610,959	1,346,497	663,119	209,853	283,561
Net Earnings (Loss)	(1,426,609)	(801,840)	(1,024,169)	(840,854)	(1,554,633)	(754,188)	(813,289)	(1,961,422)
Net Earnings (Loss) per Share (basic and diluted) <sup>1</sup>	(0.09)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.10)

1. Basic and diluted loss per share has been updated to reflect the 5 for 1 share consolidation, see "Share Transactions"

Production on the Company's marine concessions was ongoing during 2008. From September 5, 2008, to September 17, 2008 the mv DF Discoverer was in dry dock for its compulsory five year marine survey. Mining is expected to resume the last week of September 2008.

### CAPITAL RESOURCES AND LIQUIDITY

At June 30, 2008, the Company had a working capital surplus of \$4,387,895 including cash of \$3,991,690 compared with a working capital surplus of \$8,254,940 including cash of \$8,995,041 at June 30, 2007. The decrease in working capital at June 30, 2008 is primarily a result of the Company's operational losses and investment in exploration.

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The June 30, 2008 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, 2008 the Company incurred a loss of \$ 4,093,472, and had a cash outflow of \$3,909,893 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.

### *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.

On July 26, 2007, as consideration for full and final payment of all amounts owing under the Credit Facility, Spirit converted the principal amount of \$3,901,110 into common shares of the Company on the basis of one common share for each \$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 were issued to Spirit.

### *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

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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 Boulle 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.

### *Share Transactions*

100,000 common shares with a fair value of \$9,457 were issued on August 24<sup>th</sup> 2007, as the fourth staged issuance as partial compensation and another 100,000 common shares, on a pre stock-consolidation basis, were issued on August 24, 2008 as the fifth stage and final compensation, for an option to acquire a working interest in certain exploration properties.

Subsequent to year end the Company implemented the five (5) for one (1) share capital consolidation approved by the shareholders at the Annual and Special Meeting of the Company held on December 3, 2007. The Toronto Stock Exchange has confirmed that the common shares of the Company commenced trading on a consolidated basis at the opening on September 25, 2008. Basis and diluted loss per share amounts in this MD&A have been updated on a retroactive basis to reflect the share consolidation.

### *Commitments*

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

	Less than 1 year	Total
Operating Lease for office space	3,637	3,637
Total contractual obligations	3,637	3,637

### *Investments*

The investments comprises 1.5 million shares held in Bonaparte Diamond Mines, a listed entity on the Australian Stock Exchange, the fair value of which was \$115,262 as at June 30, 2008 (2007, \$146,385). The investment is classified as available-for-sale.

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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 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. Boulle held directly or indirectly approximately 26.1% of the Company's issued and outstanding common shares (at July 26, 2007).

In July 2007 the Company entered into a joint venture agreement with Lion Fields Limited ("Lion Fields") for mineral exploration in a highly prospective area in western Zambia. Lion Fields, a company that is controlled by Mr. Jean-Raymond Boulle, 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 acceptance from the TSX, 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.

During the year ended June 30, 2008 the Company was charged fees for consulting services of \$40,114 (2007 - \$46,355) by directors of the Company.

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 2008, the company paid marketing expenses amounting to \$103,301 (2007 - \$81,224) to Diamond Tenders (Belgium) N.V.

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

### **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

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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.

### **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

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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 option pricing 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.

### **New Accounting Policies**

Effective July 1, 2007, the Company adopted the Canadian Institute of Chartered Accounts ("CICA") Handbook Sections 3855, "Financial Instruments – Recognition and Measurements", 3861, "Financial Instruments – Presentation and Disclosure", 1530 "Comprehensive Income", 3685, "Hedges", and 1506, "Accounting Changes". The main requirements of these new standards and the resulting financial statement impact are described below.

Consistent with the requirements of the new accounting standards, the Company has not restated any prior period amounts as a result of adopting the accounting changes.

#### **Section 3855, Financial Instruments – Measurement and Disclosure**

This section 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 instruments are classified into one of five categories: held-to-maturity, loans and receivables, available for sale financial assets, held-for-trading and other liabilities;
- All financial instruments are to be measured at fair value on initial recognition. Available for sale financial assets and held-for trading financial instruments are measured at fair value subsequent to initial recognition. Loans and receivables, held to maturity financial assets and other liabilities are measured in subsequent periods at amortized cost using the effective interest rate method;
- Subsequent measurement and fair value changes for all financial instruments other than available-for-sale financial assets are recognized into earnings. For available-for-sale financial assets subsequent measurement and fair value changes are recorded in other comprehensive income until derecognized or impaired at which time the amounts are recorded into earnings; and

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- All derivative financial instruments are to be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Upon adoption, the Company classified its cash as held-for-trading and accounts receivable as loans and receivable with the amounts recorded at fair value. The investment was classified as available-for-sale and an adjustment of \$42,167 was recorded to measure the investment at its then fair value with a corresponding entry to the deficit. Accounts payable and accrued liabilities and notes payable were classified as other liabilities with the amounts recorded at fair value.

### Section 3861, Financial Instruments – Presentation and Disclosure

This section addresses the presentation of financial instruments and non-financial derivatives, and identifies the related information that should be disclosed. This section also revises the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provides several new requirements for disclosure about fair value.

### Section 1530, Comprehensive Income

This section 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, Hedges

This section 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 does not currently hold any financial instruments designated for hedge accounting.

### Section 1506, Accounting Changes

This section revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook sections discussed in this note.

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### Future Accounting Changes

On December 1, 2006, the CICA issued three new accounting sections: Section 1535, Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These new sections are effective for interim and annual financial statements for fiscal years commencing on or after October 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, ("Section 3064") replacing Section 3062, *Goodwill and other intangible assets* ("Section 3062") and Section 3450, *Research and development costs*. Various changes have been made to other standards to be consistent with the new Section 3064.

Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2009.

In October 2007, the CICA issued Handbook Section 3031 "*Inventories*". This section requires that inventories be measured at the lower of cost and net realizable value. This section is effective for fiscal years beginning on or after January 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2008.

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

### International Financial Reporting Standards

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has yet to be determined.

### FINANCIAL INSTRUMENTS

The Company classified its cash as held-for-trading and accounts receivable as loans and receivable with the amounts recorded at fair value. The investment in Bonaparte Diamond Mines is classified as

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available-for-sale and is recorded at fair value. Accounts payable and accrued liabilities and notes payable were classified as other liabilities with the amounts recorded at fair value.

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 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

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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 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

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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 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. 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.

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

Diamond prices in international markets may also be affected by concerns of diamond origin. So-called "conflict diamonds" that originate in countries involved in civil war and that are alleged to fund the activities of warring factions in these countries tend to bring the international diamond market into disrepute. Although none of the 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 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.

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Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the 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 28, 2008, a total of 46,921,346 common shares of the Company were outstanding. Stock options outstanding at September 28, 2008 totalled 218,000 with exercise prices ranging from Cdn\$0.70 to Cdn\$4.55 per share and expiry dates between October 3, 2008 to March 18, 2012.

### **DISCLOSURE CONTROLS AND PROCEDURES**

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

As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – *Certification of Disclosure in Companies' 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**

Management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2008, and based on that assessment concluded that the

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Company's internal control over financial reporting was effective. Except as discussed below, there were no changes were made in the Company's internal controls over financial reporting during the year ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

During the year ending June 2008, the Company improved its systems of internal control and financial reporting as newly recruited staff was employed in Namibia. The Company has taken steps to restructure its financial division during the year ended June 30 2008. The CFO resident in South Africa resigned on April 30, 2008 and the new CFO operated from Mauritius.

The financial reporting and closing process of the Company was improved to acceptable standards. Currently the Company employs appropriate financial staff and there is appropriate segregation of duties considering the Company's size and stage of operations. An improved financial reporting system was implemented for obtaining the required financial information from remote operations on a timelier basis, which helped with the closing of the final accounts at the consolidated level. The Company's financial function is located in Namibia, and Mauritius.