

*Consolidated Financial Statements of*

**DIAMOND FIELDS INTERNATIONAL LTD.**

*June 30, 2010 and 2009*

## **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) "Ian Ransome"

Ian Ransome

President and Chief Executive Officer

September 24, 2010



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## Auditors' Report

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To the Shareholders of  
Diamond Fields International Ltd.

We have audited the consolidated balance sheets of Diamond Fields International Ltd. as at June 30, 2010 and 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. 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, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Canada LLP"

Chartered Accountants  
Vancouver, Canada  
September 24, 2010

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Balance Sheets

June 30, 2010 and 2009

(Expressed in U.S. dollars)

	2010	2009
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and equivalents	166,446	554,985
Prepaid expenses and other	71,425	35,999
Inventories (Note 3)	295,571	972,851
	<b>533,442</b>	1,563,835
INVESTMENTS (Note 4)	-	83,696
MINERAL PROPERTIES (Note 5)	-	3,587,880
PLANT AND EQUIPMENT (Note 6)	385,621	608,250
	<b>919,063</b>	5,843,661
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	424,255	365,665
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	49,454,804	48,961,596
Contributed surplus (Note 9)	3,016,697	3,016,697
Accumulated deficit	(50,971,958)	(45,475,041)
Accumulated other comprehensive loss (Note 10)	(1,004,735)	(1,025,256)
	<b>494,808</b>	5,477,996
	<b>919,063</b>	5,843,661

NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN (Note 1)

COMMITMENTS (Note 16)

SUBSEQUENT EVENTS (Note 17)

*“Edward Wayne Malouf”*

Director

*“Gooroodeo Sookun ”*

Director

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Consolidated Statements of Loss, Comprehensive Loss and Deficit**  
Years ended June 30, 2010 and 2009  
(Expressed in U.S. dollars)

	2010	2009
	\$	\$
DIAMOND SALES	799,009	701,038
OPERATING COSTS		
Production costs (including depreciation, depletion and amortization)	1,193,564	2,709,774
Royalties, selling and marketing	24,863	136,734
	1,218,427	2,846,508
	(419,418)	(2,145,470)
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	42,224	90,761
Consulting (Note 15)	38,623	39,569
Investor relations	20,828	63,128
Office	176,756	148,961
Professional fees	179,755	185,826
Regulatory	71,985	64,136
Salaries and benefits	253,481	447,293
Stock-based compensation	-	14,116
Travel and accommodation	40,440	37,217
	824,092	1,091,007
OTHER INCOME (EXPENSE)		
Interest and other income (Note 11)	17,532	484,956
Other interest expense	-	(3,826)
Gain on disposal of plant and equipment	-	31,792
Loss on disposal of investments	(21,207)	-
Write-off of mineral properties (Note 5)	(4,257,578)	(6,340,244)
Other expenses	(8,906)	(113,155)
Foreign exchange gain (loss)	16,752	(284,624)
	(4,253,407)	(6,225,101)
LOSS BEFORE INCOME TAXES	(5,496,917)	(9,461,578)
FUTURE INCOME TAX RECOVERY (Note 7)	-	1,234,407
NET LOSS FOR THE YEAR	(5,496,917)	(8,227,171)
OTHER COMPREHENSIVE LOSS:		
Unrealized loss on available-for-sale financial assets (Note 10)	-	(31,566)
Realized loss on available-for-sale financial assets (Note 10)	20,521	-
COMPREHENSIVE LOSS	(5,476,396)	(8,258,737)
BASIC AND DILUTED LOSS PER SHARE	(0.11)	(0.18)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)	48,228	46,921
ACCUMULATED DEFICIT, BEGINNING OF YEAR	(45,475,041)	(37,247,870)
NET LOSS FOR THE YEAR	(5,496,917)	(8,227,171)
ACCUMULATED DEFICIT, END OF YEAR	(50,971,958)	(45,475,041)

See accompanying Notes to the Consolidated Financial Statements.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

(Expressed in U.S. dollars)

	2010	2009
	\$	\$
Cash provided by (used in)		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(5,496,917)	(8,227,171)
Items not affecting use of cash		
Loss on disposal of investments	21,207	-
Depreciation, depletion and amortization	242,208	810,154
Gain on disposal of plant and equipment	-	(31,792)
Write-off of mineral properties	4,257,578	6,340,244
Future income tax recovery	-	(1,234,407)
Stock-based compensation	-	14,116
Net change in non-cash operating working capital items (Note 12)	700,444	(246,980)
	<b>(275,480)</b>	<b>(2,575,836)</b>
<b>FINANCING ACTIVITIES</b>		
Issue of shares, net of costs	493,208	-
	<b>493,208</b>	<b>-</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral properties	(669,698)	(903,554)
Proceeds on disposal of property, plant and equipment	-	46,680
Proceeds on disposal of investments	83,010	-
Purchases of property, plant and equipment	(19,579)	(3,995)
	<b>(606,267)</b>	<b>(860,869)</b>
<b>DECREASE IN CASH</b>	<b>(388,539)</b>	<b>(3,436,705)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>554,985</b>	<b>3,991,690</b>
<b>CASH, END OF YEAR</b>	<b>166,446</b>	<b>554,985</b>

Supplementary disclosure of non-cash financing and investing activities (Note 12)

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

**Years ended June 30, 2010 and 2009**

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

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### **1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A 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, polymetallic hydrothermal deposits in Saudi Arabia, 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 or 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 year ended June 30, 2010 the Company incurred a loss of \$5,496,917 (2009: \$8,227,171), has an accumulated deficit of \$50,971,958 at June 30, 2010 and had a net cash outflow during the year ended June 30, 2010 of \$275,480 (2009: \$2,575,836) from operating activities. Losses for the year include impairment charges of \$4,257,578 (2009: \$6,340,244) resulting from management’s estimate of the value of the Company’s mineral properties.

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 as estimated to be required to sufficiently 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.

### **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.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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 Diamond Fields International Ltd.

#### (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 estimated net realizable value of inventories, the estimated indicated resources (probable diamond reserves), value of investments, any asset retirement obligation, stock-based compensation, 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 plant and equipment.

#### (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. The functional currency of the subsidiaries has been determined to be the local currency of the geographical location in which they operate.

##### 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, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (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 statements 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 functional currency of the parent are translated into United States dollars 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;
- depreciation or amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate; and
- all resulting exchange differences are recognised in the statement of operations.

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

#### (c) *Financial instruments*

The Company recognizes financial assets and liabilities on the balance sheet when it becomes a party to the contractual provisions of the instrument. Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

The Company expenses transaction costs related to the acquisition or issuance of held-for-trading financial instruments in the period in which the costs are incurred. For all other categories of financial instruments the Company adds the transaction costs related to the acquisition or issuance of financial instruments to the instrument itself and amortizes the transaction costs to the statement of operations over the life of the financial instrument on an effective yield basis.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's financial instruments at June 30, 2010 were comprised of cash, accounts receivable, investments and accounts payable and accrued liabilities. Information related to risk management positions and discussions of risks associated with financial assets and financial liabilities are discussed in Note 14.

(i) *Cash and equivalents*

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

(ii) *Investments*

Investments over which the Company does not exercise control or significant influence were classified as available for sale as they represent an investment in the shares of a publicly traded company (Note 4). Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange and for which no sales restrictions apply were recorded at values based on the current bid prices. Provisions for impairment of investments are made, where necessary, to recognize other than temporary declines in value.

(iii) *Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities are non-interest bearing, are classified as other liabilities and are stated at amortized cost, which approximate fair values due to the short terms to maturity.

Handbook Section 3862, Financial Instruments – Disclosures, was amended in June 2009. It establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's financial instruments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Changes in valuation methods may result in transfers into or out of a financial instrument's assigned level. During the year ended December 31, 2009, there were no significant transfers between level 1, 2 and 3. The required disclosures are included in Note 14.

(d) *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 the ordinary course of business, less applicable variable selling expenses.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### (e) *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% (2008 - 24%) interest in Diamond Tenders (Belgium) N.V. which is controlled by a company that is in turn controlled by a significant shareholder of the Company. The net book value of the Company's investment in this company is \$nil (2009 - \$nil)

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, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) *Plant and equipment*

Equipment comprises mainly the mining vessel, automobiles and office equipment. All other 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 statement of loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the assets' costs 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) *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.

#### (j) *Stock-based compensation*

The Company has an Employees' and Directors' Equity Incentive Plan which is disclosed in Note 8. 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. Shares issued in exchange for assets are valued using the market price of the shares on the date of the transaction.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) *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 only to the extent that management determines that it is more likely than not that the future income tax assets will be realized.

(l) *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.

For the year ended June 30, 2010, potentially dilutive common shares, relating to the share purchase options and warrants outstanding at year end, totaling 7,862,000 (2009 – 170,000) are not included in the computation of loss per share because their effect was anti-dilutive.

(m) *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, 2010 or 2009.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) *Adoption of new accounting standards and other proposed future accounting changes*

Effective July 1, 2009, the Company adopted the following Canadian Institute of Chartered Accountants (“CICA”) accounting standards: (a) Section 1535, *Capital Disclosures*; (b) Section 3862, *Financial Instruments – Disclosures*; (c) Section 3863, *Financial Instruments – Presentation*; (d) Section 3031, *Inventories*; (e) Section 3064, *Goodwill and intangible assets*; (f) *EIC – 173, Credit risk and the fair value of financial assets and financial liabilities*; and (g) *EIC-174, Mining exploration costs*. The main requirements of these new standards and the resulting financial statement impact are described below.

- *Section 1535, Capital Disclosures*

This section establishes standards for disclosures about an entity’s capital and how it is managed. Under this standard the Company is required to disclose qualitative information about its objectives, policies and processes for managing capital; to disclose quantitative data about what it regards as capital; and to disclose whether an entity has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance.

The adoption of this standard required additional disclosure (Note 14) but had no effect on the consolidated financial statements of the Company.

- *Section 3862, Financial Instruments – Disclosure, Section*

This section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management’s objectives, policies and procedures for managing such risks.

The adoption of this standard required additional disclosure (Note 14) but had no effect on the financial statements of the Company.

- *Section 3863, Financial Instruments – Presentation*

This Section establishes standards for presentation of financial instruments and non-financial derivatives.

The adoption of this standard required additional disclosure (Note 14) but had no effect on the consolidated financial statements of the Company.

- *Section 3031, Inventories*

From July 1, 2008, the Company adopted new CICA Handbook section 3031 which provides additional guidance in the measurement and disclosure of inventories. The revised standard requires inventories to be presented at the lower of cost and net realizable value. In addition, the revised standard requires inventories to include fixed production overhead based on their normal capacity. The adoption of this section did not have a material impact on the Company's consolidated financial statements.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Section 3064, Goodwill and intangible assets*

In January 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets". The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. Section 1000, "Financial Statement Concepts", was also amended to provide consistency with this new standard. This standard applied to the Company's interim and annual financial statements beginning on July 1, 2009. The adoption of this guidance resulted in no changes to the Company's consolidated financial statements.

- *EIC – 173, Credit risk and the fair value of financial assets and financial liabilities*

On January 20, 2009, the CICA approved EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This standard was effective for the Company for the interim period ended September 30, 2009. The adoption of this guidance resulted in no changes to the Company's consolidated financial statements.

- *EIC-174, Mining exploration costs*

On March 27, 2009, the CICA approved EIC-174 "Mining Exploration Costs." This guidance clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Also, it clarified when exploration costs related to mining properties may be capitalized, in particular when a company has not established mineral reserves objectively. This standard was effective for the Company for the interim period ended September 30, 2009. The adoption of this guidance resulted in no changes to the Company's consolidated financial statements.

- *Other Future Accounting Changes*

The CICA Accounting Standards Board has adopted the following new or amended Handbook Sections:

- (i) Business combinations

In December 2008 the CICA issued section 1582, *Business Combinations*, replacing section 1581, *Business Combinations*. This standard was amended to require additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. Company's adopting section 1582 will also be required to adopt CICA Handbook sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*. These standards will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders' equity on the balance sheet. In addition, the income statement of the controlling parent will include 100% of the subsidiary's results and present the allocation between controlling and non-controlling interest. These standards will be effective January 1, 2011 however early adoption is permitted. The changes resulting

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

from adopting section 1582 will be applied prospectively and the changes for adopting sections 1601 and 1602 will be applied retrospectively. The Company has not yet begun to assess the impact of these new accounting standards on its financial statements.

(q) *International Financial Reporting Standards*

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's transition date of July 1, 2010 will require restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS the Company has not yet developed an implementation strategy to establish timelines and identify significant differences between Canadian GAAP and IFRS, thus the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 3. INVENTORIES

	<u>2010</u>	<u>2009</u>
	\$	\$
Diamond inventory	20,594	751,289
Materials and supplies	274,977	221,562
	<u>295,571</u>	<u>972,851</u>

### 4. INVESTMENTS

The investment comprised 200,000 shares in Minemakers Limited, a listed entity on the Australian Stock Exchange, the fair value of which was \$83,696 as at June 30, 2009. This investment was fully disposed of during the year ended June 30, 2010 for total proceeds of \$83,010 resulting in the recognition of a loss on disposition of \$20,521. The investment was previously classified as available-for-sale.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

### 5. MINERAL PROPERTIES

	Namibian Sea Concessions	Liberian Exploration Properties	Other Exploration Properties	Balance, June 30
	\$	\$	\$	\$
<b>2010</b>				
Balance, beginning of year	2,524,324	835,790	227,766	3,587,880
Expenditures on mineral properties	-	87,385	582,313	669,698
Impairment charges	(2,524,324)	(923,175)	(810,079)	(4,257,578)
Balance, end of year	-	-	-	-
<b>2009</b>				
Balance, beginning of year	6,750,417	1,597,191	683,348	9,030,956
Expenditures on mineral properties	75,548	455,014	372,992	903,554
Shares issued to Ducor	-	20,000	-	20,000
Depletion and amortization	(26,386)	-	-	(26,386)
Impairment charges	(4,275,255)	(1,236,415)	(828,574)	(6,340,244)
Balance, end of year	2,524,324	835,790	227,766	3,587,880

#### 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.

Joint operations in the Namibian Sea concessions, 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 May 20 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 operating costs, diamond marketing costs and gross sales proceeds from production in proportion of 65% to Diamond Fields Namibia (Pty) Ltd and 35% to Bonaparte Diamond Mines NL.

Due to the loss making situation the Company's subsidiary, Diamond Fields Namibia (Pty) Ltd made a claim to Bonaparte Diamond Mines NL in respect of their share of cost, net of their share of revenue. On November 5, 2008, the Company acquired all of Bonaparte's interests in DFI's ML 111 and ML 139 Namibian marine diamond concessions, giving DFI 100% ownership in those concessions. Bonaparte Diamond Mines NL also paid DFI \$275,000 to settle balances owed to DFI (Note 11). The arrangement concluded all joint venture arrangements between DFI and Bonaparte.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 5. MINERAL PROPERTIES (Continued)

On December 19, 2008, the Company announced that it suspended the operation of its diamond mining vessel the MV DF Discoverer, operating in the Namibian sea concession, until further notice. The Board of Directors has made this decision based on the severity of the global economic downturn and the sudden drop in the price of rough diamonds. As a result of the current economic situation, Management performed an impairment test on the Namibian sea concessions as at June 30, 2010 and determined the fair value of the Namibian sea concessions to be \$nil (2009 - \$2,524,324). As the fair value was less than the concession's carrying value at that time, an impairment charge of \$2,524,324 (2009 - \$4,275,255) was recognised in the Statement of Loss, Comprehensive Loss and Deficit.

#### *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 200,000 shares (100,000 shares has been issued to Ducor to date and the Company has paid \$120,000 in lieu of 40,000 shares) in five annual instalments of 40,000 shares each, and by spending \$2,000,000 on exploration over the next four years. During the year ended June 30, 2009, the Company issued 20,000 shares (2008: 20,000) to Ducor (Note 8). Qualifying expenditures under the terms of the agreement amounted to \$2,189,006 as at June 30, 2009. 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.

The Company has retroceded the exploration licence back to the Government of the Republic of Liberia. Management performed an impairment test on the Liberian exploration properties as at June 30, 2010 and determined the fair value of these properties to be \$nil (2009 - \$835,790). As the fair value was less than the concession's carrying value at that time, an impairment charge of \$923,175 (2009 - \$1,236,415) was recognised in the Statement of Loss, Comprehensive Loss and Deficit.

#### **Other exploration properties**

##### *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.

Management performed an impairment test on the Madagascar exploration properties as at June 30, 2010 and determined the fair value of these properties to be \$nil (2009 - \$16,548). As the fair value was less than the concession's carrying value at that time, an impairment charge of \$38,321 (2009 - \$828,575) was recognised in the Statement of Loss, Comprehensive Loss and Deficit.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 5. MINERAL PROPERTIES (Continued)

#### *Hydrothermal polymetallic deposits within the Red Sea*

The Company, together with its joint venture partner, Manafa International Trade Company of Saudi Arabia (Manafa) has been granted an exclusive mining license for a period of 30 years, extending over the Atlantis II Deeps, one of the largest known hydrothermal polymetallic deposits in the world, located within the Red Sea. Pursuant to the terms of the joint venture agreement with Manafa, DFI owns 50.1% of the venture and Manafa owns 49.9%. The Company is to develop its marine exploration and exploitation expertise in to the emerging deep water resource market. As at 30 June 2010, the Company incurred \$560,540 exploration expenses within the Red Sea. As the project is still at exploration stage and the deposit are not yet proven, the exploration expenses were written off in the current year.

#### *Zambia zinc copper project*

In Zambia, exploration activities have focussed on resource modelling of the Zambian extension of the Kipushi orebody within the Solwesi licence joint venture with Lion Fields Ltd. Management performed an impairment test on the Zambian exploration properties as at June 30, 2010 and determined the fair value of these properties to be \$nil (2009 - \$211,218). As the fair value was less than the concession's carrying value at that time, an impairment charge of \$211,218 (2009 - \$nil) was recognised in the Statement of Loss, Comprehensive Loss and Deficit.

### 6. PLANT AND EQUIPMENT

	2010			2009
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	\$	\$	\$	\$
Automobiles	92,174	92,174	-	2,479
Office equipment	282,323	242,694	39,629	59,794
Mining vessel and plant equipment	2,937,228	2,591,236	345,992	545,977
	<b>3,311,725</b>	<b>2,926,104</b>	<b>385,621</b>	<b>608,250</b>

Depreciation charged on plant and equipment for the year included in the Statement of Loss, Comprehensive Loss and Deficit, amounted to \$242,208 (2009 - \$810,153).

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

### 7. INCOME TAXES

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

	2010	2009
	\$	\$
Loss before income taxes	<b>(5,497,000)</b>	(9,462,000)
Tax rates	<b>29.25%</b>	30.00%
Expected income tax expense (recovery)	<b>(1,607,800)</b>	(2,838,000)
Foreign tax rate difference	<b>(5,600)</b>	(1,111,000)
Permanent differences	<b>61,800</b>	(93,000)
Effect of income tax rate changes	<b>37,500</b>	230,000
Expiry of loss carry forward	<b>771,100</b>	247,000
Change in valuation allowance for future income tax assets	<b>743,000</b>	2,330,593
Future income taxes (recovery)/expense	-	(1,234,407)

Future income tax assets and liabilities at June 30, 2010 and 2009 arise from the following:

	2010	2009
	\$	\$
Future income tax assets		
Non-capital losses carried forward	<b>10,521,000</b>	10,787,000
Capital losses carried forward	<b>6,000</b>	6,000
Share issuance costs	<b>40,000</b>	82,000
Plant and equipment	<b>49,000</b>	40,000
Goodwill and Intangible Assets	<b>38,000</b>	38,000
Valuation allowance	<b>(10,654,000)</b>	(9,911,000)
Net future income tax assets	-	1,042,000
Future income tax liabilities		
Mineral properties	-	(1,042,000)
Future income tax liabilities, net	-	-

The Company has Canadian tax loss carry-forwards at June 30, 2010 of approximately \$11,000,000 (2009: \$13,726,000), which expire in various amounts through 2029. The Company also has foreign tax loss carry-forwards at June 30, 2010 of approximately \$ 13,600,000 (2009: \$10,598,000) in Namibia. The foreign loss carry-forwards can be carried forward indefinitely, subject to continuity of business tests.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

### 8. 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, 2008 are as follows:

	Number of Shares	Amount \$
Balance, June 30, 2008	46,901,346	48,941,596
Shares issued for non-cash consideration		
Acquisition of interest in exploration property (Note 5)	20,000	20,000
Balance, June 30, 2009	46,921,346	48,961,596
Issue of new shares	7,692,000	501,443
Issue costs – cash		(8,235)
Balance, June 30, 2010	54,613,346	49,454,804

During the year ended June 30, 2010, the Company completed a private placement of 7,692,000 units for net proceeds of \$493,208. Each unit is comprised of one common share and one transferable share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of CAD \$0.10 per share until March 31 2012. These warrants were determined to have no value and therefore all proceeds of this placement were attributed to the shares issued. On August 24, 2008, 20,000 common shares, with a fair value of \$20,000 (Cdn\$20,000), were issued as the fifth stage and final payment, 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 3,800,000 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

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 8. SHARE CAPITAL (Continued)

#### Employees' and Directors' Equity Incentive Plan (Continued)

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 200,000 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 200,000 common shares can be issued pursuant to the Share Purchase Plan.

#### Outstanding and exercisable stock options

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

	Options Available for Grant	Options Outstanding	
		Number of Common Shares	Weighted Average Exercise Price Per Share (Expressed in Canadian dollars)
Balances, June 30, 2008	936,398	348,000	\$ 2.20
Options forfeited	178,000	(178,000)	\$ 3.22
Balances, June 30, 2009 and 2010	1,114,398	170,000	\$1.14

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# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

### 8. SHARE CAPITAL (Continued)

#### Outstanding and exercisable stock options (continued)

The following table summarizes information concerning outstanding and exercisable options at June 30, 2010:

Options Outstanding			Options Exercisable	
Number Outstanding	Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
		(Expressed in Canadian dollars)		(Expressed in Canadian dollars)
30,000	0.17	\$1.35	30,000	\$1.35
140,000	1.75	\$1.10	140,000	\$1.10
170,000		\$1.14	170,000	\$1.14

At June 30, 2010 and 2009, the U.S. dollar equivalent of the weighted average exercise price per share for the options outstanding and the options exercisable was \$0.99 and \$2.18, respectively.

Subsequent to year end, 30,000 options expired unexercised.

#### Share purchase warrants

As at June 30, 2010 there were 7,692,000 (2009 - nil) share purchase warrants outstanding. These warrants have an exercise price of \$0.10 and expire on March 31, 2012.

### 9. CONTRIBUTED SURPLUS

	2010	2009
	\$	\$
Balance, beginning of year	3,016,697	3,002,581
Add amounts arising from:		
Stock-based compensation expense		
Employees	-	14,116
Balance, end of year	3,016,697	3,016,697

Stock-based compensation expense recognized during the years ended June 30, 2009 was due to the vesting of options granted in fiscal 2007 which vested on the basis of 1/3<sup>rd</sup> in each year from the date of grant.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

### 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

	<u>2010</u>	<u>2009</u>
	\$	\$
Balance, beginning of year	(1,025,256)	(993,690)
Unrealized loss on available-for-sale financial assets	-	(31,566)
Realized loss on available-for-sale financial assets (Note 4)	20,521	-
Balance, end of year	<u>(1,004,735)</u>	<u>(1,025,256)</u>

### 11. INTEREST AND OTHER INCOME

	<u>2010</u>	<u>2009</u>
	\$	\$
Overprovision of VAT penalty in prior years	-	347,585
Settlement by Bonaparte Diamond Mines NL for share of loss (Note 14)	-	121,513
Rent	17,079	-
Interest	453	15,858
	<u>17,532</u>	<u>484,956</u>

### 12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	<u>2010</u>	<u>2009</u>
	\$	\$
(Increase) decrease in:		
Accounts receivable	-	391,248
Inventories	677,280	(340,946)
Prepaid expenses and other	(35,426)	327,525
Decrease in:		
Accounts payable and accrued liabilities	58,590	(624,807)
	<u>700,444</u>	<u>(246,980)</u>

Other supplemental information:

	<u>2010</u>	<u>2009</u>
	\$	\$
Shares issued for acquisition of interest in exploration property (Note 5)	-	20,000
Cash interest paid	-	-
Cash income taxes paid	-	-

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

### 13. SEGMENTED INFORMATION

At June 30, 2010, the Company operates in four main geographical locations 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 June 30, 2009 were as follows:

	Head Office	Namibia	Madagascar	West Africa	Other	Total
Diamond Sales	-	701,038	-	-	-	<b>701,038</b>
Net Loss for the year	(2,968,476)	(3,954,075)	-	(1,250,445)	(54,175)	<b>(8,227,171)</b>
Cash	244,048	97,735	-	59,486	153,716	<b>554,985</b>
Prepaid expenses and other	-	27,877	-	1,669	6,453	<b>35,999</b>
Inventories	-	972,851	-	-	-	<b>972,851</b>
Investments	83,696	-	-	-	-	<b>83,696</b>
Mineral Properties	-	2,524,324	16,549	835,790	211,217	<b>3,587,880</b>
Property, plant and equipment	26,490	562,549	-	15,263	3,948	<b>608,250</b>
Total assets	354,234	4,185,336	16,549	912,208	375,334	<b>5,843,661</b>
<b>Significant Items</b>						
Depreciation, depletion and amortization	65,296	724,112	-	18,870	1,875	<b>810,153</b>
Interest expense	-	648	-	-	-	<b>648</b>

The segment results for the year ended June 30, 2010 were as follows:

	Head Office	Namibia	Madagascar	West Africa	Other	Total
Diamond Sales	-	799,099	-	-	-	<b>799,009</b>
Net Loss for the year	(1,449,201)	(3,198,057)	(38,431)	(952,373)	(81,023)	<b>(5,496,917)</b>
Cash	139,362	20,739	-	1,963	4,382	166,446
Accounts receivable	2,271	54,107	-	1,669	13,378	71,425
Prepaid expenses	-	-	-	-	-	-
Inventories	-	295,571	-	-	-	295,571
Investments	-	-	-	-	-	-
Mineral Properties	-	-	-	-	-	-
Property, plant and equipment	3,307	357,669	-	4,543	20,102	385,621
Total assets	144,940	728,086	-	8,175	37,862	919,063
<b>Significant Items</b>						
Depreciation, depletion and amortization	24,092	205,058	-	10,720	2,338	242,208
Interest expense	-	-	-	-	-	-

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 14. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS

#### (i) Capital Management

The Company's objective when managing its capital is to ensure it has sufficient capital to maintain its ongoing marine mining operations and safeguard the Company's ability to continue as a going concern in order to pursue the continued development of its various mineral properties.

The Company's capital consists of cash and working capital and shareholders' equity. The Company's policy is to fund ongoing marine mining and exploration activities, as well as its administration and corporate activities, from diamond production. The Company also accesses capital or debt markets as necessary to finance its operations. The Company may acquire additional funds from capital or debt markets where advantageous circumstances arise. The Company assesses capital and debt markets on a case by case basis to minimize the cost of capital in the prevailing markets and maintain optimal capital structure. The Company does not have any current plans to raise capital or borrow funds. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. No investments in asset backed commercial paper are used.

The Company currently has no externally imposed capital requirements except to maintain sufficient cash balances to meet exploration commitments imposed by certain exploration property license agreements. The Company's capital management policies have not changed during the year.

#### (ii) Financial Instrument Risks

The Company is exposed in varying degrees to a variety of financial instrument related risks. The type of risk exposure and the way in which such exposure is managed is provided as follows:

- Credit risk:

The Company is primarily exposed to credit risk on its cash and the risk of financial loss if counterparty to a financial instrument fails to meet its financial obligation. Credit risk exposure on cash is limited through maintaining cash with high-credit quality financial institutions and instruments.

- Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking harm to the Company's reputation. The Company monitors cash flows to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

### 14. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS (Continued)

#### (ii) Financial Instrument Risks (continued)

- **Market Risk**

Market risk is the risk that changes in market prices including commodity prices, foreign exchange rates and interest rates that will affect the Company's net earnings of the value of its financial instruments. The objective of market risk management is to reduce exposures to acceptable limits while maximizing returns.

Financial instruments classified as level 1, quoted prices in active markets for the asset, being the published prices prevailing in the market at the financial statement date, include the portfolio investments, which were disposed of during the year ended June 30, 2010.

- **Commodity price risk**

The value of the Company's mineral resource properties is related to the price of marine diamonds, gold, silver, and nickel and the outlook for these commodities.

Since the Company's mineral exploration projects, other than the Namibian sea concessions, are primarily in the development stage and do not yet have proven reserves, commodity based risks in respect of these properties is considered negligible.

- **Foreign exchange risk**

The Company primarily transacts business in Namibia, Madagascar and West Africa and purchases goods and services denominated in US dollars, Namibia dollars and South African Rand. As a result, the Company has foreign exchange transaction and translation exposure. Transactions denominated in amounts other than the US dollar are translated into US dollars at the rate of exchange in effect at the date of the transaction. Monetary assets and liabilities are translated into US dollars using the exchange rates in effect at the balance sheet dates. Translation gains and losses are recognized in income in the current period. As such, the Company has exposure to foreign currency exchange rate fluctuations at this time. The Company has not entered into any agreements or purchased any instruments to hedge possible foreign currency risks.

The following table reflects the company's foreign currency exposure as of June 30, 2010:

	Currency NAD	Currency ZAR	United States Dollar	Total
<b>Financial Assets</b>				
Cash and cash equivalents	\$ 19,155	\$ 4,382	\$ 142,909	\$ 166,446
Other receivables	54,107	13,378	3,934	71,419
	\$ 73,262	\$ 17,760	\$ 146,843	\$ 237,865
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	\$ 9,682	\$ 4,874	\$ 409,698	\$424,255 -

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Years ended June 30, 2010 and 2009

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

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### 14. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS (Continued)

Future changes in exchange rates could have a immaterial effect on the Company's business, financial condition and results of operations given the minimal cash balances held in other than United States dollars..

- Interest rate risk

The Company does not have any financial instruments subject to interest rate risk at June 30, 2010.

### 15. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at amounts established and agreed to between the related parties. During the year ended June 30, 2010 the Company was charged fees for consulting services of \$31,693 (2009 - \$45,103) by directors of the Company.

### 16. COMMITMENTS

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

#### **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 \$200,000 against a portion of Lion Fields' total project costs incurred to date of the agreement.

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 \$200,000 during each subsequent renewal term of the Zambia Property license, if any, in order to maintain its interest in the Zambia Property. The license for the current year expired in June 2010 and has not been renewed.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

**Years ended June 30, 2010 and 2009**

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

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### **17. SUBSEQUENT EVENTS**

- a) The Company, together with its joint venture partner, Manafa International Trade Company of Saudi Arabia ("Manafa") has been granted an exclusive mining license for a period of 30 years, extending over the Atlantis II Deeps, one of the largest known hydrothermal polymetallic deposits in the world, located within the Red Sea. Pursuant to the terms of the joint venture agreement with Manafa, DFI owns 50.1% of the venture and Manafa owns 49.9%. The Company is to develop its marine exploration and exploitation expertise in to the emerging deep water resource market.
- b) Subsequent to year end the company issued bonus 200,000 shares at a deemed value of \$0.18 per share.
- c) Subsequent to year end, the company granted 2,535,000 options to its directors, employees and consultants.

### **18. RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2010 the Company was charged fees for consulting services of \$31,693 (2009 - \$45,103) by directors of the Company.

### **19. COMPARATIVE FIGURES**

Comparative figures have been reclassified, where applicable, to conform to the current year's presentation.