

*Second Quarter Report*



*December 31, 2010 and 2009*

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# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

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### **INTRODUCTION**

This management discussion and analysis of financial position and results of operations ("MD&A") of Diamond Fields International Ltd. ("Diamond Fields", "DFI", or "the Company") should be read in conjunction with the unaudited consolidated financial statements of Diamond Fields International Ltd. and the notes thereto for the three and six months ended December 31, 2010, and with the audited annual consolidated financial statements and the notes thereto for the year ended June 30, 2010. The quarterly financial statements at December 31, 2010 are unaudited and have not been reviewed by the Company's external auditor. The effective date of this MD&A is February 14, 2011. Additional information about Diamond Fields, including its annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com)

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained herein are forward-looking, and are based on the opinions and estimates of management, or on opinions and estimates provided and accepted by management. These opinions and estimates include those that relate to geological and mining factors, commodity prices and marketing parameters used by management.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ, possibly significantly. When used in this document, the words such as "could", "plan", "estimate", "expect", "intend", "intent", "may", "potential", "should", and similar expressions are forward-looking statements. Although Diamond Fields believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. Readers are therefore cautioned not to place undue reliance on any forward-looking statements.

### **OVERVIEW**

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

During the quarter ended December 31, 2010, while devoting time to all its projects and considering new opportunities, the Company focused on its Atlantis II Red Sea deeps project. The Company, through its joint venture partner, Manafa International Trade Company of Saudi Arabia (Manafa) hold an exclusive thirty (30) year mining license extending over the Atlantis II Deeps, one of the largest known hydrothermal polymetallic SEDEX deposits in the world, located within the Red Sea. Pursuant to the terms of the joint venture agreement, DFI owns 50.1% of the venture and Manafa owns 49.9%. (See press release June 4<sup>th</sup> 2010). The Company intends to capitalize on its marine exploration and exploitation expertise in to the emerging deep water resource market.

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

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

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### **RESULTS OF OPERATIONS**

#### **Mining Activities**

##### *Mining Vessel DF Discoverer*

Mining operations were suspended on December 12, 2008 (see DFI press release of December 19, 2008). The vessel currently is docked in Cape Town, South Africa.

#### **Exploration Projects**

##### *Atlantis II, Red Sea, Saudi Arabia*

The Atlantis II basin is situated on the axis of the Red Sea ridge complex at a depth of 2,000 metres, approximately 115km west of Jeddah. It comprises a series of interlinked sub-basins predominantly infilled by a series of SEDEX (Sedimentary Exhalative) sedimentary sequences. Historical coring has only sampled the uppermost 20 metres of these sediments (average core depth 8.3 metres), which cover a superficial area of approximately 57km<sup>2</sup>. The upper most sequence of the deposit is characterized by rhythmically layered metal-bearing muds containing stratiform poly-metallic sulphides of zinc, copper and iron with considerable amounts of silver. The thickness of this unit varies across the deposit, averaging between 7 and 11 metres within the sub-basins. The underlying sediments which are comprised muds of the DOP (Detrital Oxidic Pyrite) zone, have only been partially penetrated in their uppermost metre in a minority of the historical cores, and have also been shown to carry significant economic mineralisation. The thickness of the DOP zone is unknown from core data, but historical seismic studies suggest that it may attain a thickness of up to 28 metres.

Deep tow seismic data collated in the 1980's indicates that infilling sediments reach a thickness of up to approximately >30 metres in parts of the Atlantis II basin. The sediment package beneath the partially mapped base of the DOP zone exhibit regular acoustic layering. The composition of the underlying horizons is unknown, but offers the potential to host significant stratiform mineralization

A bulk sampling program undertaken by Preussag over a four month period during 1979, recovered 15,000 cubic meter of mud from a water depth of approximately 2,000 metres, successfully demonstrating that the metalliferous muds of the Atlantis II Deeps could be continuously mined.

A resource estimate based on 587 core samples for the uppermost horizon and the first metre of the DOP zone was undertaken by Preussag (a German exploration company) in the 1980's. This historical (non 43-101) compliant resource estimated the sampled portion of the deposit to contain 89.5 million tons of sediment at a grade of 2.06% Zinc, 0.45% Copper and 38.4ppm Silver (on a Dry Salt Free basis) with no cut-off grade applied. Diamond Fields has not done sufficient work to classify the historical estimate as current mineral resources, the issuer is not treating the historical estimate as current mineral resources and the historical estimate should not be relied upon.

The Company is compiling a 43-101 compliant resource statement.

# 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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### Exploration Projects

#### *Liberia Exploration Project*

In July 2004, the Company entered into an option agreement with Ducor Minerals Inc. pursuant to which the Company could earn a minimum 70% working interest in the Gbapolu and Grand Gedeh properties in the Republic of Liberia (the "Properties"). The transaction was accepted by the Toronto Stock Exchange on August 27, 2004.

The Company undertook an exploration program for gold in the 2008 dry season within these permits. A group 1,500 soil samples have been analyzed by Alex Stewart Assayers in the UK, a NI43-101 compliant laboratory. An initial appraisal of the results indicates significant mineralisation within discrete zones of quartz veining. On September 3, 2008, the Company exercised its option and now owns 70% of the project. In November 2008 DFI entered into a joint venture agreement with Ducor Minerals, Inc.. The Company has decided not to renew its license to the Grand Gedeh property but has notified the Government that it is invoking arbitration of its dispute with the Government over the Government's denial of a renewal of the Company's Henry Town exploration license and alternative request that that license be converted to a Mining Development Agreement (MDA).

#### *Madagascar nickel exploration program*

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

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

During 1956 and 1957, UGINE, (a French steel company, now part of the Arcelormittal Group), 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. ALS Chemex, a NI43-101 compliant laboratory has completed analysis of 5,144 channel samples collated from a 30 metre pitting grid over the Company's 100% owned Ni-laterite deposit Valozoro in Madagascar. Values of up to 7.94% nickel have been recovered from the sampling program executed by Rawtech, a NI43-101 compliant geological consulting firm.

A ground penetrating radar survey of the deposit was conducted in November 2008 by the NI 43-101 complaint Canadian company Ground Radar to provide data for a measured resource estimate. The

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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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survey was undertaken at a 30 metre line spacing over the entire deposit, producing approximately 22.4 line kilometres of continuous ground penetrating radar data. The data has been reduced and interpreted and incorporated with the geochemical and stratigraphic data from the pit sampling program, and used to produce a new resource model for the deposit. Current resource models indicate that the latter contains an inferred resource of 10,957,744 tonnes of ore grading at 1.661% Nickel.

### *Zambia zinc copper project*

On July 24, 2007, following acceptance by the Toronto Stock Exchange, the Company announced that it had 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 controlled by Mr. Jean-Raymond Boule, the largest shareholder of the Company, had been granted the exclusive right to conduct exploration work for copper, gold, silver, zinc, lead and germanium over a 444 square kilometer property (the "Zambia Property") in the Solwezi district of western Zambia. Management of DFI believe that the Zambia Property has the potential to host extensions to the world-class Kipushi ore-body, located immediately adjacent to the Zambia Property, within the Democratic Republic of Congo. Kipushi is one of the highest grade zinc mines in the world.

Following the acceptance of the Toronto Exchange, Lion Fields and DFI formed a Joint Venture on an 80% (DFI) to 20% (Lion Fields) basis, for the exploration, valuation and possible 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 reimbursed Lion Fields US\$ 200,000 against a portion of Lion Fields' total project costs incurred. DFI operates the Joint Venture with overall management responsibility for the prospecting operations.

Regional exploration of the Company's joint venture with Lion Fields 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 ore body into 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 including the Katwishi anomaly, a defined Cu-Zn target approximately 1,200 metres to the northwest of Kipushi, and a zone of cupriferous gossans developed near the village of Yowela in the centre of the license were extensively sampled. The Company's application for renewal of an area of approximately 35.06 square kilometres is pending.

### **Board and management changes**

On December 6th, 2010 the Company announced that Ian Gordon Dalrymple Ransome had been appointed as Director of the Company.

The Board is currently comprised of seven (7) directors, being Wayne Malouf, Mahen Sookun, Earl Young, Gregg Sedun, Rod Baker, Craig Mclean and Ian Ransome.

# DIAMOND FIELDS INTERNATIONAL LTD.

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

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

### SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the six months ended December 31, 2010 and 2009:

	2010	2009
Total revenues	\$ Nil	\$ 802,987
Net loss	\$ (827,642)	\$ (780,520)
Net loss per share (basic and diluted)	\$ (0.02)	\$ (0.02)

Net loss for the six months ended December 31, 2010 was \$827,642 or \$0.02 per share, compared with a net loss of \$ 780,520 or \$ 0.02 per share in 2009.

General and administrative expenses amounted to \$420,939 during the six months ended December 31, 2010 compared to \$ 428,447 during the six months ended December 31, 2009. This reduction was mainly achieved due to corporate structure streamlining and cost cutting undertaken by the Company in 2009.

### SELECTED QUARTERLY DATA

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

	31-Dec-10	30-Sept-10	30-June-10	31-Mar-10	31-Dec-09	30-Sept-09	30-June-09	31-Mar-09
Total Revenues	-	-	-	-	-	799,099	-	-
Net (Loss)	(460,926)	(366,716)	(4,458,161)	(258,236)	(463,970)	(316,550)	(3,606,275)	(597,970)
Net (Loss) per Share (basic and diluted) <sup>1</sup>	(0.02)	(0.01)	(0.09)	(0.01)	(0.01)	(0.01)	(0.08)	(0.01)

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

From September 5, 2008, to September 17, 2008 the mv DF Discoverer was in dry dock for its compulsory five year marine survey. On December 19, 2008, the Company suspended operations of its diamond mining vessel, the mv DF Discoverer. The Board of Directors made this decision based on the severity of the global economic downturn and the sudden drop in the price of rough diamonds

### CAPITAL RESOURCES AND LIQUIDITY

At December 31, 2010, the Company had a working capital surplus of \$ 634,125 including cash of \$634,356 compared with a working capital surplus of \$ 438,551 including cash of \$519,534 at December 31, 2009. The increase in working capital at December 31, 2010 is primarily a result of cash received from issue of new shares.

# **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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The December 31, 2010 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.

### *Share Transactions*

On October 19, 2010, the Company issued 4,579,420 units at CAD 0.17 per unit, each unit consisting of one share and one-half transferable share purchase warrant, each whole warrant entitling the holder to acquire one additional common share at a price of CAD 0.25 per share from October 19, 2010 until October 18, 2012. These warrants are not exercisable until receipt by the Company of 'Disinterested Shareholders approval'. Approval was obtained at the Company's Annual and Special General Meeting held on December, 6 2010. Any shares to be issued on exercise of the warrants are subject to a hold period expiring on February 20, 2011.

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.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires companies to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgements about matters that are inherently uncertain. The following policies are considered to be the critical accounting policies as they involve the use of significant estimates:

#### **Mineral Properties**

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the estimated indicated resources (probable diamond reserves), and the estimated future operating results and net cash flows from the Company's mineral properties. The estimation of reserves and resources is inherently uncertain and involves subjective judgements about many relevant factors. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgements used in engineering and geological interpretation, which may prove to be unreliable. There can be no assurance that estimates of indicated mineral resources (probable diamond reserves) will be accurate or that such mineral resources can be mined or processed profitably. Estimated indicated resources (probable diamond reserves) for the Company's Namibian marine diamond concessions are based on the September 2000 feasibility study by AGRA Simons Ltd, and resource estimates defined by the Bonaparte (2007) surveys. The resource defined by the AGRA Simons estimates

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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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included exploitation of the resources using 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.

### **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.

# **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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### **DISCLOSURE CONTROLS PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities, particularly during the period in which the annual filings of the Company are being prepared, in an accurate and timely manner in order for the Company to comply with its continuous disclosure and financial reporting obligations and in order to safeguard assets. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met.

The Corporation's financial reporting procedures and practices have enabled the certification of Diamond Fields International's annual filings in compliance with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other annual filings in accordance with Canadian Generally Accepted Accounting Principles, except as noted below.

Given the size of the Company, the evaluation of the design of internal controls over financial reporting for the Company resulted in the identification of the following weaknesses:

Management is aware that due to its relatively small scale of operations there is a lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation are not significant enough to justify the expense associated with adding employees to clearly segregate duties.

The Company retains outside expertise on complex taxation, accounting and reporting issues for which it determines it requires assistance.

There have been no significant changes to the Company's internal control over financial reporting that occurred during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's management, including the CEO and CFO, do not expect that the Company's disclosure controls and procedures and internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within a company are detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by

# **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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individual acts of some persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### **OUTSTANDING SHARE DATA**

At December 31, 2010, a total of 59,392,766 common shares of the Company were outstanding. Stock options outstanding at December 31, 2010 totalled 2,675,000 with exercise prices ranging from Cdn\$0.18 to Cdn\$1.35 per share and expiry dates between August 31, 2010 to August 18, 2015.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Balance Sheets

(Expressed in U.S. dollars)

	December 31 2010	June 30, 2010
	(Unaudited)	
<b>ASSETS</b>		
CURRENT		
Cash	634,356	166,446
Prepaid expenses and other	57,350	71,425
Inventories	295,571	295,571
	<b>987,277</b>	533,442
PROPERTY, PLANT & EQUIPMENT	<b>278,363</b>	385,621
	<b>1,265,640</b>	919,063
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	<b>353,153</b>	424,255
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 3)	<b>50,249,525</b>	49,454,804
Authorized - Unlimited number of common shares without par value		
Issued & outstanding: 59,392,766 (June 30, 2010: 54,613,346)		
Convertible debentures	<b>435,990</b>	-
Contributed Surplus	<b>3,031,307</b>	3,016,697
Deficit	<b>(51,799,600)</b>	(50,971,958)
Accumulated other comprehensive loss	<b>(1,004,735)</b>	(1,004,735)
	<b>912,487</b>	494,808
	<b>1,265,640</b>	919,063

APPROVED BY THE BOARD:

“Wayne Malouf”  
Director

“Mahen Sookun”  
Director

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

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
<b>DIAMOND SALES</b>	-	-	-	802,987
<b>OPERATING COSTS</b>				
Production costs (including depletion)	159,849	135,098	266,226	985,201
Royalties, selling and marketing	-	-	-	24,984
	<b>(159,849)</b>	<b>(135,098)</b>	<b>266,226</b>	<b>1,010,185</b>
	<b>(159,849)</b>	<b>(135,098)</b>	<b>(266,226)</b>	<b>(207,198)</b>
<b>GENERAL AND ADMINISTRATIVE</b>				
Amortization	2,711	9,533	8,552	16,510
Consulting	29,103	44,758	69,026	86,278
Investor relations	13,296	1,526	26,547	3,588
Maintenance	149	232	957	612
Office	43,335	33,377	78,500	81,643
Professional fees	15,382	39,165	-	55,206
Regulatory	23,212	22,585	43,772	36,761
Salaries and benefits	71,719	64,108	127,638	123,763
Stock-based compensation	7,305	-	50,610	-
Travel and accommodation	15,337	22,013	15,337	24,086
	<b>223,549</b>	<b>237,297</b>	<b>420,939</b>	<b>428,447</b>
<b>OTHER INCOME (EXPENSE)</b>				
Interest and other income	229	178	285	4,750
Write off of exploration properties	(141,613)	(139,908)	(192,620)	(227,610)
Other expenses	(2,137)	(2,222)	(3,595)	(4,630)
Foreign exchange	65,993	50,377	55,453	82,615
	<b>(77,528)</b>	<b>(91,575)</b>	<b>(140,477)</b>	<b>(144,875)</b>
<b>NET LOSS FOR THE PERIOD</b>	<b>(460,926)</b>	<b>(463,970)</b>	<b>(827,642)</b>	<b>(780,520)</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(51,338,674)</b>	<b>(45,791,591)</b>	<b>(50,971,958)</b>	<b>(45,475,041)</b>
<b>DEFICIT, END OF PERIOD</b>	<b>(51,799,600)</b>	<b>(46,255,561)</b>	<b>(51,799,600)</b>	<b>(46,255,561)</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.02)</b>	<b>(0.02)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)</b>	<b>59,392</b>	<b>46,921</b>	<b>59,392</b>	<b>46,921</b>

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

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Cash Flows

(Un-audited – prepared by management)

(Expressed in U.S. dollars)

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Net loss	(460,926)	(463,970)	(827,642)	(780,520)
Items not involving use of cash:				
Depreciation and depletion	51,422	59,578	107,259	116,453
Write off of exploration properties	-	139,908	-	227,609
Stock-based compensation	7,305	-	50,610	-
Net change in non-cash operating working capital items (Note 4)	(156,806)	51,487	(57,028)	724,169
	(559,005)	(212,997)	(726,801)	287,711
<b>FINANCING ACTIVITIES</b>				
Share capital issued, net of issue costs	418,693	-	758,721	-
Debentures issued	-	-	435,990	-
	418,693	-	1,194,711	-
<b>INVESTING ACTIVITIES</b>				
Expenditures on mineral properties	-	(158,491)	-	(322,290)
Expenditures on other capital assets	-	(872)	-	(872)
	-	(159,363)	-	(323,162)
<b>INCREASE/(DECREASE) IN CASH</b>	<b>(140,312)</b>	<b>(372,360)</b>	<b>467,910</b>	<b>(35,451)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>774,668</b>	<b>891,894</b>	<b>166,446</b>	<b>554,985</b>
<b>CASH, END OF PERIOD</b>	<b>634,356</b>	<b>519,534</b>	<b>634,356</b>	<b>519,534</b>

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

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three and six months ended December 31, 2010 and 2009

(Un-audited – prepared by management)

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

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### 1. BASIS OF PRESENTATION

These interim financial statements do not contain all the information required by Canadian generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent audited annual financial statements of the Company for the year ended June 30, 2010. These interim financial statements follow the same accounting policies and methods of application as described in Note 1 and Note 2 to the Company's most recent audited annual financial statements.

### 2. ADOPTION OF NEW ACCOUNTING STANDARDS & 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.

#### 1. *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 but had no effect on the consolidated financial statements of the Company.

#### 2. *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 but had no effect on the financial statements of the Company.

#### 3. *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 but had no effect on the consolidated financial statements of the Company.

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#### 4. *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.

#### 5. *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.

#### 6. *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.

#### 7. *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.

#### 8. *Other Future Accounting Changes*

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

##### *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

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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 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.

### *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.

## **FINANCIAL RISK MANAGEMENT**

### **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.

#### *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 and maintain its exploration properties. There can be no assurance as to the success of future financing activities necessary to meet its debt obligations and operating requirements.

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*Estimates of reserves and resources are inherently uncertain*

Sea diamond deposits are alluvial deposits located on the ocean floor. These deposits are difficult to sample because of their remote nature, variable terrain and the location of diamonds in irregular gravel beds lying above and within crevices and potholes in the bedrock. As a result, there are no standard sampling tools and resource estimation practices employed for these types of deposits. The sampling programs for the Sea Diamonds Project have used tools not specifically designed for the geological environment found in the concession areas.

There is a degree of uncertainty attributable to the calculation of reserves, resources and corresponding grades being mined or dedicated to future production. Until reserves or resources are actually mined and processed, the quantity of reserves or resources and grades must be considered as estimates only. In addition, the quantity of reserves or resources may vary depending on diamond prices, operating costs and mining efficiency. Any material change in the quantity of reserves, resources or grade may affect the economic viability of the Sea Diamonds Project. Mining tools currently available to the Company differ from those used for calculating indicated resources (probable reserves) in the 2000 feasibility study.

*Exploration activities will not necessarily result in the discovery of commercially recoverable quantities of targeted minerals (currently diamonds, zinc, copper, 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.

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*The offshore diamond mining technology selected by the Company may not be as efficient as expected*

Geological conditions in those areas of the concession in which sampling activities were carried out contributed to a suspected under sampling bias by the sampling tool and could adversely affect the ability of the mining tool to recover all of the diamonds which are actually present on the sea floor. The extent to which this will occur cannot be quantified at this time and will only be known as mining progresses. Even if a sampling bias is confirmed, there is no assurance that any additional diamonds can be entirely recovered.

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

The Company has investigated its rights to explore and exploit its concessions and, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that applicable governments will not revoke, or significantly alter the conditions of, the applicable exploration and mining authorizations and that such exploration and mining authorizations will not be challenged or impugned by third parties. Mining and prospecting licenses may be revoked by the applicable government authorities for failure to perform the obligations there under. 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.

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*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.

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.

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*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 there under, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

### **3. SHARE CAPITAL**

At December 31, 2010, a total of 59,392,766 common shares of the Company were outstanding. Stock options outstanding at December 31, 2010 totalled 2,675,000 with exercise prices ranging from Cdn\$0.18 to Cdn\$1.35 per share and expiry dates between August 31, 2010 to August 18, 2015.

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### 4. CASH FLOW INFORMATION

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

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
(Increase) decrease in:				
Accounts receivable	(11,337)	(40,447)	14,075	(76,375)
Inventory	-	-	-	725,216
Prepaid expenses	-	2,162	-	-
(Decrease) increase in:				
Accounts payable and accrued liabilities	(145,469)	89,772	(71,103)	75,328
	<b>(156,806)</b>	51,487	<b>(57,028)</b>	724,169

### 5. SEGMENTED INFORMATION

The Company considers its business to consist of one reportable business segment. All of the Company's revenue for the six-month period ended December 31, 2010 and 2009 was earned in Namibia.