

Consolidated Financial Statements of

DIAMOND FIELDS INTERNATIONAL LTD.

June 30, 2009 and 2008

Management's Responsibility for Financial Reporting

The consolidated financial statements have been prepared by management who, when necessary, has made informed judgements and estimates of the outcome of events and transactions, with due consideration given to materiality. Management acknowledges its responsibility for the fairness, integrity and objectivity of all information in the consolidated financial statements.

As a means of executing its responsibility, management relies on the company's system of internal control. This system has been established to ensure, within reasonable limits, that the assets are safeguarded, transactions are properly recorded and are executed in accordance with management's authorization, and that the accounting records provide a solid foundation from which to prepare the consolidated financial statements.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting solely of non-management directors. This committee makes its recommendations to the Board of Directors. Based on those recommendations, the Board of Directors approves the consolidated financial statements.

(Signed) "Edward Wayne Malouf"

Wayne Malouf

President and Chief Executive Officer

September 28, 2009



BDO Dunwoody LLP
Chartered Accountants

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Auditors' Report

To the Shareholders of
Diamond Fields International Ltd.

We have audited the consolidated balance sheets of Diamond Fields International Ltd. as at June 30, 2009 and 2008 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, 2009 and 2008 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 Dunwoody LLP"

Chartered Accountants
Vancouver, British Columbia
September 17, 2009

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Balance Sheets

June 30, 2009 and 2008

(Expressed in U.S. dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT		
Cash and equivalents	554,985	3,991,690
Accounts receivable	-	391,248
Prepaid expenses and other	35,999	363,524
Inventories (Note 4)	972,851	631,905
	1,563,835	5,378,367
INVESTMENTS (Note 5)	83,696	115,262
MINERAL PROPERTIES (Note 6)	3,587,880	9,030,957
PLANT AND EQUIPMENT (Note 7)	608,250	1,402,910
	5,843,661	15,927,496
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	365,665	990,472
FUTURE INCOME TAXES (Note 9)	-	1,234,407
	365,665	2,224,879
NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN (Note 1)		
COMMITMENTS (Note 18)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	48,961,596	48,941,596
Contributed surplus (Note 11)	3,016,697	3,002,581
Accumulated deficit	(45,475,041)	(37,247,870)
Accumulated other comprehensive loss (Note 12)	(1,025,256)	(993,690)
	5,477,996	13,702,617
	5,843,661	15,927,496

APPROVED BY THE BOARD:

“Edward Wayne Malouf”

Director

“Gooroodeo Sookun ”

Director

DIAMOND FIELDS INTERNATIONAL LTD.
Consolidated Statements of Loss, Comprehensive Loss and Deficit
Years ended June 30, 2009 and 2008
(Expressed in U.S. dollars)

	<u>2009</u>	<u>2008</u>
DIAMOND SALES	701,038	3,327,707
OPERATING COSTS		
Production costs (including depreciation, depletion and amortization)	2,709,774	4,249,737
Royalties, selling and marketing	136,734	321,976
	<u>2,846,508</u>	<u>4,571,713</u>
	<u>(2,145,470)</u>	<u>(1,244,006)</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	90,761	97,694
Consulting	39,569	183,175
Investor relations	63,128	80,334
Office	148,961	155,885
Professional fees	185,826	528,801
Regulatory	64,136	91,880
Salaries and benefits	447,293	563,484
Stock-based compensation	14,116	58,259
Travel and accommodation	37,217	152,730
	<u>1,091,007</u>	<u>1,912,242</u>
OTHER INCOME (EXPENSE)		
Interest and other income (Note 13)	484,956	152,791
Gain on conversion of note payable (Note 8)	-	96,395
Interest on loan and notes payable	-	(340,830)
Other interest expense	(3,826)	(13,786)
Gain/(loss) on disposal of plant and equipment	31,792	(3,189)
Write-off of mineral properties (Note 6)	(6,340,244)	(88,345)
Other expenses	(113,155)	(177,258)
Foreign exchange loss	(284,624)	(590,784)
	<u>(6,225,101)</u>	<u>(965,006)</u>
LOSS BEFORE INCOME TAXES	<u>(9,461,578)</u>	<u>(4,121,254)</u>
FUTURE INCOME TAX RECOVERY (Note 9)	1,234,407	27,782
NET LOSS FOR THE YEAR	<u>(8,227,171)</u>	<u>(4,093,472)</u>
OTHER COMPREHENSIVE LOSS:		
Unrealized loss on available-for-sale financial assets (Note 12)	(31,566)	(31,123)
COMPREHENSIVE LOSS	<u>(8,258,737)</u>	<u>(4,124,595)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>(0.18)</u>	<u>(0.09)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)	<u>46,921</u>	<u>46,615</u>
DEFICIT, BEGINNING OF YEAR	(37,247,870)	(33,154,398)
NET LOSS FOR THE YEAR	(8,227,171)	(4,093,072)
DEFICIT, END OF YEAR	<u>(45,475,041)</u>	<u>(37,247,870)</u>

See accompanying Notes to the Consolidated Financial Statements.

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Expressed in U.S. dollars)

	<u>2009</u>	<u>2008</u>
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net loss for the year	(8,227,171)	(4,093,472)
Items not affecting use of cash		
Gain on conversion of notes payable	-	(96,395)
Depreciation, depletion and amortization	810,153	961,153
Non-cash interest expense	-	333,117
(Gain)/loss on disposal of plant and equipment	(31,792)	3,189
Write-off of mineral properties	6,340,244	88,345
Future income tax expense (recovery)	(1,234,407)	(27,782)
Stock-based compensation	14,116	58,259
Net change in non-cash operating working capital items (Note 14)	(246,980)	(1,136,307)
	(2,575,836)	(3,909,893)
INVESTING ACTIVITIES		
Expenditures on mineral properties	(903,554)	(929,303)
Proceeds on disposal of property, plant and equipment	46,680	-
Purchases of property, plant and equipment	(3,995)	(164,155)
	(860,869)	(1,093,458)
DECREASE IN CASH	(3,436,705)	(5,003,351)
CASH, BEGINNING OF YEAR	3,991,690	8,995,041
CASH, END OF YEAR	554,985	3,991,690
OTHER SUPPLEMENTARY INFORMATION:		
Cash interest paid	-	20,359
Cash income taxes paid	-	-

Supplementary disclosure of non –cash financing and investing activities (Note 14)

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2009 and 2008

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

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, 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, 2009 the Company incurred a loss of \$8,227,171 (2008: \$4,093,472) and had a net cash outflow of \$2,575,836 (2008: \$3,909,893) from operating activities.

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.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2009 and 2008

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The significant accounting policies used in these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

(a) *Principles of consolidation*

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

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

(c) *Foreign currencies*

Functional and presentation currency

Diamond Fields considers the U.S. dollar to be its functional currency as it is the currency of the primary economic environment in which the Company operates.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of the transactions. Revenues and expenses denominated in foreign currencies are translated at rates approximating the exchange rates in effect at the time of the transactions.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2009 and 2008

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Foreign currencies (continued)*

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of loss.

Group companies

The Company has determined that all of its subsidiaries are integrated and the results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into 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; and
- depreciation or amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate
- all resulting exchange differences are recognised in the 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.

(d) *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

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2009 and 2008

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

itself and amortizes the transaction costs to the statement of operations over the life of the financial instrument on an effective yield basis.

The Company's financial instruments at June 30, 2009 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 16 below.

(i) *Cash and equivalents*

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

(ii) *Accounts receivable*

Accounts receivable are classified as loans and receivables and are stated at amortized cost, which approximate fair values due to the short terms to maturity.

(iii) *Investments*

Investments over which the Company does not exercise control or significant influence are classified as available for sale as they represent an investment in the shares of a publicly traded company (Note 5). Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange and for which no sales restrictions apply are 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.

(iv) *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.

(v) *Notes payable*

The notes payable were considered a compound financial instrument and were classified as other liabilities. Accordingly, the fair value of the conversion privilege forming part of the note was classified as part of shareholders' equity with the balance of the proceeds classified as a financial liability. The carrying value of the financial liability was being accreted to the principal amount as additional interest expense over the term of the note. The note was converted to common shares during the year ended June 30, 2008 (Note 8).

(e) *Inventories*

Diamond inventory is stated at the lower of weighted average cost of production and net realizable value, and consists of diamond stocks recovered from the Namibian operations. Net realizable value is the estimated selling price in ordinary course of business, less applicable variable selling expenses.

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

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2009 and 2008

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Investments*

Investments in companies where the Company has the ability to exercise significant influence are accounted for using the equity method. Under this method, the Company's share of their earnings and losses is included in operations and its investments therein are adjusted by a like amount. Dividends received are credited to the investment accounts.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) *Plant and equipment*

Equipment comprises mainly the mining vessel, automobiles and office equipment. Land is shown at cost. 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 their cost to their residual values over their estimated useful lives, as follows:

Automobiles	Three to five years
Mining vessel and plant equipment	One to six years
Office equipment	Six years

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

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

(i) *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 10. The Company accounts for its grants under that Plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a graded basis over the vesting period.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2009 and 2008

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

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, 2009, potentially dilutive common shares, relating to the share purchase options outstanding at year end, totaling 170,000 (2008 – 348,000) 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, 2009 or 2008.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2009 and 2008

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Effective July 1, 2008, 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*; and (d) Section 3031, *Inventories*. 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 16) 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 16) 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 16) 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, 2009 and 2008

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued):

- *Other Future Accounting Changes*

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

(i) Goodwill and intangible assets

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

Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2009.

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

(ii) 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 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.

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Years ended June 30, 2009 and 2008

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

3. CRITICAL ACCOUNTING ESTIMATES

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

The following areas involve the use of significant estimates:

(a) *Mineral Properties*

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the estimated indicated resources (probable diamond reserves), and the estimated future operating results and net cash flows from the Company's mineral properties. The estimation of reserves and resources is inherently uncertain and involves subjective judgements about many relevant factors. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgements used in engineering and geological interpretation, which may prove to be unreliable. There can be no assurance that estimates of indicated mineral resources (probable diamond reserves) will be accurate or that such mineral resources can be mined or processed profitably.

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

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

On the commencement of commercial production, the net capitalized costs are charged to operations on a unit-of-production basis, by property, using the estimated indicated resources (probable diamond reserves) as the depletion base.

The Company carries its mineral properties at cost less a provision for impairment. The Company defers exploration and development costs, which are related to specific projects until the commercial feasibility of the project is determinable. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects. The costs of each property and related expenditures will be amortized over the economic life of the property on a units-of-production basis. Costs are charged to operations when a property is abandoned or when impairment in value that is other than temporary has been determined.

The Company undertakes a review of the carrying values of mineral properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows.

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Notes to the Consolidated Financial Statements

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3. CRITICAL ACCOUNTING ESTIMATES (Continued)

(a) *Mineral Properties(Continued)*

An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value. In undertaking this review, management of the Company is required to make significant estimates of, among other things, geological potential, the estimated indicated resources (probable diamond reserves), future production and sales volume, unit sales prices, future operating and capital costs and reclamation costs to the end of the project's life. These estimates are subject to various risks and uncertainties, which may ultimately have an affect on the expected recoverability of the carrying values of the mining properties and related expenditures.

(b) *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.

(c) *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.

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4. INVENTORIES

	<u>2009</u>	<u>2008</u>
Diamond inventory	751,289	346,782
Materials and supplies	221,562	285,123
	<u>972,851</u>	<u>631,905</u>

5. INVESTMENTS

The investment comprises 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 (2008 – 1.5 million shares of Bonaparte Diamond Mines, a listed entity on the Australian Stock Exchange, the fair value of which was \$115,262).

On February 20, 2009, the Company received an additional 500,000 shares of Bonaparte Diamond Mines with a fair value of approximately \$22,500 pursuant to the term of the expanded joint operations agreement between the Company and Bonaparte Diamond Mines dated August 18, 2006. On May 12, 2009, Minemakers Limited took over Bonaparte Diamond Mines. At that date, Diamond Fields Limited received 200,000 shares on Minemakers Limited in exchange for the 2.0 million shares it held in Bonaparte Diamond Mines. As the investment is classified as available-for-sale, the decrease in fair value has been recorded in Accumulated Other Comprehensive Loss (Note 12).

6. MINERAL PROPERTIES

	Namibian Sea Concessions	Liberian Exploration Properties	Other Exploration Properties	Balance, June 30
2009				
Balance, beginning of year	6,750,417	1,597,191	683,349	9,030,957
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)	(828,575)	(6,340,244)
Balance, end of year	<u>2,524,324</u>	<u>835,790</u>	<u>227,766</u>	<u>3,587,880</u>
2008				
Balance, beginning of year	6,995,549	1,088,344	55,830	8,139,723
Expenditures on mineral properties	-	499,390	627,519	1,126,903
Shares issued to Ducor	-	9,457	-	9,457
Depletion and amortization	(156,787)	-	-	(156,787)
Impairment charges	(88,345)	-	-	(88,345)
Balance, end of year	<u>6,750,417</u>	<u>1,597,191</u>	<u>683,349</u>	<u>9,030,957</u>

Namibian sea concessions

Through its subsidiary, Diamond Fields (Namibia) (Pty) Ltd., the Company owns a 100% interest in the Luderitz sea concessions off the coast of Namibia.

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6. MINERAL PROPERTIES (Continued)

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 20 May 2008. As provided by the Joint Operations Mining Agreement between Diamond Fields Namibia (Pty) Ltd and Bonaparte Diamond Mines NL, the parties agreed to share the 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 13). The arrangement concluded all joint venture arrangements between DFI and Bonaparte.

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, 2009. Management determined the fair value of the Namibian sea concessions to be approximately \$2,524,324 at June 30, 2009, using a discounted cash-flow analysis. As the fair value was less than the concession's carrying value at that time, an impairment charge of \$4,275,255 (2008 - \$88,345) was recognised in the Statement of Loss Comprehensive Loss and Deficit.

Other exploration properties

Liberian exploration properties

Diamond Fields entered into an option agreement in early August 2004 with Liberia-based Ducor Minerals Inc. ("Ducor"), pursuant to which it may earn an interest in Ducor's rights held under two mineral exploration agreements between Ducor and the Republic of Liberia.

The Gbapolu (Grand Cape) and Grand Gedeh properties are prospective for diamonds and gold respectively.

The Company may earn 70% of Ducor's interest by issuing to Ducor 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 10). 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

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6. MINERAL PROPERTIES (Continued)

pay \$60,000 in lieu of one-half of each annual stock issue. The Company may withdraw from the project at any time.

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.

Write-off of mineral properties

During fiscal 2009 Company has halted its assessment of some early-stage exploration properties. As such, the costs previously capitalized in respect of these properties, in the amount of \$2,046,503 (2008: \$nil), was written off at year end to the Statement of Loss, Comprehensive Loss and Deficit.

7. PLANT AND EQUIPMENT

	2009			2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Automobiles	92,174	89,695	2,479	38,108
Office equipment	262,744	202,950	59,794	123,211
Mining vessel and plant equipment	2,937,228	2,391,251	545,977	1,241,591
	3,292,146	2,683,896	608,250	1,402,910

Depreciation charged on property, plant and equipment for the year included in the Statement of Loss, Comprehensive Loss and Deficit, amounted to \$783,767 (2008: \$863,459).

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8. NOTE PAYABLE

	<u>2009</u>	<u>2008</u>
Opening balance	-	3,677,034
Accrued interest	-	320,471
Conversion to common shares	-	(3,901,110)
Gain on conversion of note payable	-	(96,395)
Ending balance	-	-

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

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

On July 26, 2007, as consideration for full and final payment of all amounts owing under the Credit Facility, Spirit converted the principal amount of \$3,901,110 into common shares of the Company on the basis of one common share for each \$0.15 of principal, as approved by the Company's minority shareholders at the annual general meeting held on June 20, 2007. As a result, 5,201,482 (Note 10) common shares of the Company were issued to Spirit.

With the repayment of all amounts owing to Spirit under the credit facility, Spirit has released all of its security over the Company's assets. In addition, as a result of the conversion of the notes, the Company recorded a gain of \$96,395, being the balance of the accrued interest.

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

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9. INCOME TAXES

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

	<u>2009</u>	<u>2008</u>
Loss before income taxes	(9,462,000)	(4,121,000)
Tax rates	30.00%	31.00%
Expected income tax expense (recovery)	(2,838,000)	(1,278,000)
Foreign tax rate difference	(1,111,000)	(535,000)
Permanent differences	(93,000)	413,000
Effect of income tax rate changes	230,000	-
Foreign exchange loss on revaluation of FIT balance	488,000	-
Expiry of loss carry forward	247,000	-
Change in valuation allowance for future income tax assets	1,842,593	1,372,218
Future income taxes (recovery)/expense	(1,234,407)	(27,782)

Future income tax assets and liabilities at June 30, 2009 and 2008 arise from the following:

	<u>2009</u>	<u>2008</u>
Future income tax assets		
Non-capital losses carried forward	9,296,000	8,576,000
Capital losses carried forward	5,000	5,000
Share issuance costs	71,000	130,000
Plant and equipment	69,000	64,000
Goodwill and Intangible Assets	32,000	39,000
Valuation allowance	(8,335,000)	(6,492,407)
Net future income tax assets	1,138,000	2,322,000
Future income tax liabilities		
Inventories	106,000	-
Mineral properties	1,032,000	3,556,000
Future income tax liabilities, net	-	(1,234,407)

The Company has Canadian tax loss carry-forwards at June 30, 2009 of approximately \$13,726,000 (2008: \$10,802,000), which expire up to 2029. The Company also has foreign tax loss carry-forwards at June 30, 2009 of approximately \$10,598,000 (2008: \$9,410,000) in Namibia and \$126,000 (2008: \$92,000) in South Africa. The foreign loss carry-forwards can be carried forward indefinitely, subject to continuity of business tests.

DIAMOND FIELDS INTERNATIONAL LTD.

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10. SHARE CAPITAL

Authorized share capital

The authorized capital stock of the Company comprises an unlimited number of common shares without par value.

Issued and outstanding share capital

Changes in the issued share capital since June 30, 2007 are as follows:

	Number of Shares	Amount
Balance, June 30, 2007	41,679,864	45,031,029
Shares issued for non-cash consideration		
Acquisition of interest in exploration property (Note 6)	20,000	9,457
Shares issued for conversion of note payable (note 8)	5,201,482	3,901,110
Balance, June 30, 2008	46,901,346	48,941,596
Shares issued for non-cash consideration		
Acquisition of interest in exploration property (Note 6)	20,000	20,000
Balance, June 30, 2009	46,921,346	48,961,596

The Company implemented the five (5) for one (1) share capital consolidation approved by the shareholders at the Annual and Special Meeting of the Company held on December 3, 2007. All per share amounts and outstanding shares, including all common stock equivalents (stock options and warrants) have been retroactively adjusted in the consolidated financial statements and in the notes to the consolidated financial statements for all periods presented to reflect the share consolidation.

DIAMOND FIELDS INTERNATIONAL LTD.

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10. SHARE CAPITAL (Continued)

Issued and outstanding share capital (continued)

20,000 common shares with a fair value of \$9,457 (Cdn\$9,000) were issued on August 24, 2007, as the fourth staged issuance as partial payment for an option to acquire a working interest in certain exploration properties.

On August 24, 2008, another 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 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.

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10. SHARE CAPITAL (Continued)

Outstanding and exercisable stock options

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

		Options Outstanding	
	Options Available for Grant	Number of Common Shares	Weighted Average Exercise Price Per Share (Expressed in Canadian dollars)
Balances, June 30, 2007	336,798	947,600	\$ 1.90
Options forfeited	599,600	(599,600)	\$ 1.70
Balances, June 30, 2008	936,398	348,000	\$ 2.20
Options forfeited	178,000	(178,000)	\$ 3.22
Balances, June 30, 2009	1,114,398	170,000	\$1.14

The following table summarizes information concerning outstanding and exercisable options at June 30, 2009:

Options Outstanding			Options Exercisable	
Number Outstanding	Average Remaining Contractual Life (in years)	Weighted Average Exercise Price Per Share (Expressed in Canadian dollars)	Number Exercisable	Weighted Average Exercise Price Per Share (Expressed in Canadian dollars)
30,000	1.17	1.35	30,000	1.35
140,000	2.75	1.10	130,000	1.10
170,000		1.14	170,000	1.14

At June 30, 2009 and 2008, 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.

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10. SHARE CAPITAL (Continued)

Share purchase warrants

As at June 30, 2009 and 2008 there were no share purchase warrants outstanding as they all expired on June 2, 2008.

11. CONTRIBUTED SURPLUS

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	3,002,581	2,669,107
Add amounts arising from:		
Stock-based compensation expense		
Employees	14,116	58,259
Transfer from equity portion of interest-bearing debt (Note 8)	-	275,215
Balance, end of year	<u>3,016,697</u>	<u>3,002,581</u>

Stock-based compensation expense recognized during the years ended June 30, 2009 and 2008 is due to the vesting of options granted in fiscal 2007 which vested on the basis of 1/3rd in each year from the date of grant. Since the note payable has been converted to share capital during the year ended 30 June 2008, the equity portion of the note payable has been realised and transferred to contributed surplus.

12. ACCUMULATED OTHER COMPREHENSIVE LOSS

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	(993,690)	(1,004,734)
Adjustment on opening balance due to the adoption of new handbook section for financial instruments	-	42,167
Unrealized loss on available-for-sale financial assets (Note 5)	(31,566)	(31,123)
Balance, end of year	<u>(1,025,256)</u>	<u>(993,690)</u>

13. INTEREST AND OTHER INCOME

	<u>2009</u>	<u>2008</u>
Overprovision of VAT penalty in prior years	347,585	-
Settlement by Bonaparte Diamond Mines NL for share of loss (Note 18)	121,513	-
Interest	15,858	152,791
	<u>484,956</u>	<u>152,791</u>

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14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash operating working capital items:

	<u>2009</u>	<u>2008</u>
(Increase) decrease in:		
Accounts receivable	391,248	(260,126)
Inventories	(340,946)	(14,881)
Prepaid expenses	327,525	(312,129)
Decrease in:		
Accounts payable and accrued liabilities	(624,807)	(549,171)
	(246,980)	(1,136,307)

Supplemental disclosure of non-cash investing and financing activities:

	<u>2009</u>	<u>2008</u>
Investing and financing activities:		
Shares issued for acquisition of interest in exploration property (Note 6)	20,000	9,457
Conversion of note payable	-	(3,901,110)
Shares issued for conversion of note payable	-	3,901,110

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15. SEGMENTED INFORMATION

At June 30, 2009, 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 are as follows:

	Head Office	Namibia	Madagascar	West Africa	Other	Total
Diamond Sales	-	701,038	-	-	-	701,038
Net Loss for the year	(2,968,476)	(3,954,075)	-	(1,250,445)	(54,175)	(8,227,171)
Cash	244,048	97,735	-	59,486	153,716	554,985
Prepaid expenses and other	-	27,877	-	1,669	6,453	35,999
Inventories	-	972,851	-	-	-	972,851
Investments	83,696	-	-	-	-	83,696
Mineral Properties	-	2,524,324	16,549	835,790	211,217	3,587,880
Property, plant and equipment	26,490	561,429	-	15,263	3,948	607,130
Total assets	354,234	4,184,216	16,549	912,208	375,334	5,842,541
Significant Items						
Depreciation, depletion and amortization	65,296	724,112	-	18,870	1,875	810,153
Interest expense	-	648	-	-	-	648

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

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

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16. 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.

(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 accounts receivable 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. Credit risk associated with accounts receivable is considered minimal as there is no balance owing from trade debtors at June 30, 2009.

- 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.

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16. 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.

(a) 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.

With respect to the Namibian sea concessions, the Company is subject to commodity price risk related to the market price of marine diamonds. The Company did not have any financial instruments subject to commodity price risk at balance date but if the weighted average US dollar marine diamond price achieved during the year had varied by 10% (and assuming all other variables remained constant) the effect on revenue would have been approximately +/- \$70,400. The Company does not engage in any hedging to reduce its exposure to commodity price risk.

(b) 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 Company's investment of \$83,696 is in the common shares of an Australian listed public company thus are initially denominated in Australian dollars (Note 5) There are no other foreign denominated financial assets or liabilities as at June 30, 2009.

(c) Interest rate risk

The Company does not have any financial instruments subject to interest rate risk at June 30, 2009.

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17. RELATED PARTY TRANSACTIONS

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

The Company has a 24% interest in Diamond Tenders (Belgium) N.V. which is controlled by a company that is in turn controlled by a shareholder of the Company. During the year ended June 30 2009, the Company paid marketing expenses amounting to \$22,894 (2008: \$103,301) to Diamond Tenders (Belgium) N.V.

The above transactions are recorded at amounts established and agreed to between the related parties.

18. COMMITMENTS

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

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

	<u>2009</u>	<u>2008</u>
No later than 1 year	3,127	3,637
Later than 1 year and no later than 5 years	-	-
	<u>3,127</u>	<u>3,637</u>

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.

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 over the existing term of the Zambia Property license (which is due to expire in June 2010) and \$200,000 during each subsequent renewal term of the license, if any, in order to maintain its interest in the Zambia Property.

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INTRODUCTION

This management discussion and analysis of financial position and results of operations ("MD&A") of Diamond Fields International Ltd. ("Diamond Fields", "DFI" or "the Company") should be read in conjunction with the audited consolidated financial statements of Diamond Fields International Ltd. and the notes thereto for the year ended June 30, 2009. The effective date of this MD&A is September 28th, 2009. Additional information about Diamond Fields, including its annual information form, is available on SEDAR at www.sedar.com

FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

Diamond Fields is a Canadian public company listed on the Toronto Stock Exchange. The Company is active in diamond mining and mineral exploration. International exploration activities during the year ended June 30, 2009 focused on the Company's gold properties in Liberia and the Valozoro nickel prospect in Madagascar. Exploration work on the Company's zinc copper prospect in Zambia has been temporarily suspended pending the outcome a licence renewal application. Diamond production for the fiscal year ending June 30, 2009 on Diamond Fields' Namibian marine concessions utilising its own vessel mv DF Discoverer yielded 4,120 carats, 121 carats of which were produced by a joint shallow water operation with Letu Diamonds ("Letu"). Under its contract, Letu retains 70% of the net proceeds. A total of 2,861 carats were sold during the financial year (average price received per carat \$246.21). At year end, 3,940 carats were held in inventory. 3,878 carats were subsequently sold at an average price of \$208.37 per carat. 59.72 carats from the joint operation were sold and the 61.75 carats remained in the stock. Revenue generated in the 2009 financial year amounted to \$701,038 (net of amounts attributable to our joint operations partner). Operating costs during the 2009 financial year were \$2,846,508 resulting in an operating loss of \$2,145,470.

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RESULTS OF OPERATIONS

Mining Activities

Mining Vessel DF Discoverer

Mining operations were carried out by DFI using its mining vessel DF Discoverer during July and August 2008 until the vessel was dry docked in September 2008 in Walvis Bay, Namibia for its statutory 5 year inspection and class certification. Engineering and refit were undertaken. The work was completed at the end of September 2008 on schedule and within budget. For the first three weeks of October 2008, the vessel conducted geophysical operations in NW Marshall Forks, Conical Beach and Dingus Bay. From late October to mid-December 2008, the vessel conducted mining operations. 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 pending redeployment when market conditions warrant.

Joint Venture Operations with Bonaparte Diamond Mines NL

Details of the DFI/Bonaparte Diamond Mines NL JO Agreement and previous mining activities thereunder were disclosed in the 2008 AIF and in the MD&A accompanying the audited annual consolidated financial statements for the year ended June 30, 2008. Joint activities ended in May 2008. 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 also paid DFI US\$ 275,000 to settle balances owed to DFI. The arrangement concluded all joint venture arrangements between DFI and Bonaparte.

Marine Sampling Programme

In July 2008 the Company conducted a geophysical survey over certain areas of its Namibian marine concessions. The work was performed by Underwater Surveys Ltd., a NI43-101 compliant company. The survey comprised 555 line kilometres of multi-beam, high resolution seismic and bathymetry data over the Marshall Forks region of ML111 and the Company's shallow water concession, ML32 using the mv T.B. Davy as the survey platform. The survey confirmed the presence of a defined channel structure approximately 30 metres wide, striking southwards over a traceable length in excess of 1,200 metres. The structure lies within the Marshall Forks resource domain which has historically yielded elevated diamond recoveries, and to which the structure may be related. The survey also covered Conical Bay located approximately 500 meters to the east of Marshall Forks, an area the Company regards as having good potential for developing high-grade lunate strand deposits. Audit surveys of Marshall Forks were also completed to accurately define remaining resources. Survey data from Boat Bay Rocks and Boat Bay North in ML32 were also collated to develop the Company's mid to shallow water assets.

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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 Properties cover a total area of 1,813.72 km² and are prospective for diamonds and gold, respectively. This 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.. In November 2008, the Company entered into a joint venture agreement with Silverhill Enterprises Ltd. ("Silverhill") to further develop DFI's Liberian gold project (refer to the Company's press release dated December 1, 2008). Silverhill subsequently was unable to perform as per the joint venture agreement, and has been released from this agreement as of May the 25th 2009. The Company has requested its exploration license be converted to a Mining Development Agreement (MDA) with the Government of the Republic of Liberia for the Henry Town block of the Gbapolu licence.

Site access development work and detailed geological mapping was undertaken and completed on the Barteajaam gold prospect (Grand Gedeh) in March 2009. This included the development of 13 km of road, the construction of two bridges and emplacement of cut-lines in preparation for drilling the prospect. Because of delays in delivering drilling equipment and early heavy rains, it was decided to reschedule drilling of the properties to a date after the rainy season. The Company has been granted a one year extension of the Grand Gedeh property by the Government of the Republic of Liberia until June the 6th 2009.

Madagascar nickel exploration program

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

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

During 1956 and 1957, UGINE completed an extensive prospecting program of sampling pits excavated on 20 by 20 metre grid and reported an estimated resource of 3.7 million tons of lateritic ore grading 1.75% nickel containing 65,000 tonnes of contained nickel metal. This is a historical resource estimate and a Qualified Person has not done sufficient work to classify the historical estimate as current mineral

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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 NS143-101 complaint Canadian company Ground Radar to provide data for a measured resource estimate. The 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 indicates that the later contains an inferred resource of 11,511,865.5t tonnes of ore grading between 1.7094% Ni to 1.6024% Ni.

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, has been granted the exclusive right to conduct exploration work for copper, gold, silver, zinc, lead and germanium over a 444 square kilometer property (the "Zambia Property") in the Solwezi district of western Zambia. Management of DFI believe that the Zambia Property has the potential to host extensions to the world-class Kipushi ore-body, located immediately adjacent to the Zambia Property, within the Democratic Republic of Congo. Kipushi is one of the highest grade zinc mines in the world.

Following the acceptance of the Toronto Exchange, Lion Fields and DFI formed a Joint Venture on an 80% (DFI) to 20% (Lion Fields) basis, for the exploration, valuation and, if justified, the development and mining of any mineral resources discovered on the Zambia Property, upon the terms and conditions set out in the Joint Venture agreement. Pursuant to the Joint Venture agreement, DFI has reimbursed Lion Fields US\$ 200,000 against a portion of Lion Fields' total project costs incurred to date. DFI 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 has been extensively sampled during the current field season, and is currently being further evaluated by the Company. In 2009, the Company sought to renew its license over an area of approximately 111 square kilometres and was successful, with the Government of the Republic of

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Zambia granting Lions Fields a renewal for two years on the exploration lease (see DFI press release of 7th of July 2009).

BOARD CHANGES

In July 2008, Mr. Flood resigned as a director. On February 3, 2009, Mr. John Sisay resigned from the Board due to other commitments. The Board is currently comprised of five (5) directors, being Wayne Malouf, Mahen Sookun, Earl Young, Gregg Sedun, and Rod Baker.

CORPORATE STRUCTURE STREAMLINING

In 2008 the Company began a systematic streamlining of its corporate structure. Inactive subsidiaries were, or are in the process of being dissolved. As of June 30, 2009 Diamond Fields (Greenland) Inc. was dissolved

SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the years ended June 30, 2009, 2008 and 2007:

	2009	2008	2007
Total revenues	\$ 701,038	\$ 3,327,707	\$ 2,503,030
Net loss	(8,227,171)	(4,093,472)	(5,083,532)
Net loss per share (basic and diluted) ²	(0.18)	(0.09)	(0.19)
Cash	554,985	3,991,690	8,995,041
Total assets	5,843,661	15,927,496	20,295,085
Working capital surplus/(deficiency) ¹	1,198,170	4,387,895	8,254,940
Total long term financial liabilities	-	1,234,407	4,939,223

1. See "Capital Resources and Liquidity"

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

All revenue for the year ended June 30, 2009 resulted from the sale of diamonds held in inventory or recovered during operations. A total of 2,861 carats were sold at an average price of approximately \$245.03 per carat generating revenue of \$701,038. Comparatively, the Company sold 20,298 carats in the 2008 financial year at an average price of \$242.15 per carat generating operating revenue of \$3,327,707. Production, royalty and selling expenses associated with the sale of inventory totaled \$2,846,508; whereas, these operating costs for the same period in 2008 were 4,571,713. The Company generated an operating loss of \$2,145,470 for the year ended June 30, 2009 compared with an operating loss of \$1,244,006 for fiscal 2008.

The Company incurred general and administrative expenses of \$1,091,007 during the year ended June

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30, 2009 compared to \$1,912,242 during 2008. Professional fees decreased due to a fall in legal and accounting costs. Salaries and benefits decreased because of group restructuring and redundancies. Consulting fees for the year decreased due to lesser accounting consultancy following restructuring. No stock options were issued during the year and the charge for the year was due to the graded vesting of the option plan already issued in prior years. The recovery of stock based compensation expense in the prior year was primarily due to a significant number of options that were forfeited that year. Travel and accommodation cost increased due to geological works. Net loss for the year ended June 30, 2009 was \$8,227,171 or \$0.18 per share, compared with a net loss of \$4,093,472 or \$0.09 per share in 2008.

SELECTED QUARTERLY DATA (UNAUDITED)

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

	30-June-09	31-Mar-09	31-Dec-08	30-Sept-08	30-June-08	31-Mar-08	31-Dec-07	30-Sept-07
Total Revenues	-	-	-	701,038	1,308,599	682,006	726,143	610,959
Net Earnings (Loss)	(3,606,275)	(597,970)	(2,846,606)	(1,176,320)	(1,426,609)	(801,840)	(1,024,169)	(840,854)
Net Earnings (Loss) per Share (basic and diluted) ¹	(0.08)	(0.01)	(0.06)	(0.03)	(0.09)	(0.05)	(0.05)	(0.05)

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 June 30, 2009, the Company had a working capital surplus of \$1,198,170 including cash of \$554,985 compared with a working capital surplus of \$4,387,895 including cash of \$3,991,690 at June 30, 2008. The decrease in working capital at June 30, 2009 is primarily a result of the Company's operational losses and investment in exploration

The June 30, 2009 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

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concern. While these financial statements have been prepared on the basis of accounting principles applicable to a going concern, certain conditions and events cast substantial doubt upon the validity of this assumption. For the period ended June 30, 2009 the Company incurred a loss of \$8,227,171 and had a cash outflow of \$2,575,836 from operations.

In 2009, the Company began streamlining its corporate structure. Inactive subsidiaries were, or are in the process of being, dissolved. Furthermore, the Company is continuing to cut cost while pursuing its Liberian Gold project. Alternatively, the Company is dependent on continued support from shareholders to continue its operations in the normal course of business. Available cash is dedicated towards maintaining the Company's mineral concessions and screening mining opportunities, especially existing mining operations with positive cash flow. This includes possible joint ventures for the further development and mining of the Namibian Marine concessions.

Share Transactions

100,000 common shares with a fair value of \$20,000 were issued on August 24th 2008, as the fifth staged issuance as partial compensation for an option to acquire a working interest in certain exploration properties.

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

Commitments

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

	Less than 1 year	Total
Operating Lease for Equipment	3,127	3,127
Total contractual obligations	3,127	3,127

Investments

The investment comprises 200,000 shares held in Minemakers Limited, a listed entity on the Australian Stock Exchange, the fair value of which was \$83,696 as at June 30, 2009. On 12 May 2009, Minemaker Ltd took over Bonaparte Diamond Mines, a listed company on the Australian Stock Exchange. At that day DFI had 2 million shares in Bonaparte Diamond Mines. Following the take over DFI received 200,000 shares in Minemakers Ltd.

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TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the year ended June 30, 2009 the Company was charged fees for consulting services of \$45,103 (2008 - \$40,114) by directors of the Company.

The Company has a 24% interest in Diamond Tenders (Belgium) N.V. which is controlled by a company that is in turn controlled by a shareholder of the Company. During the year ended June 30 2009, the company paid marketing expenses amounting to \$22,894 (2008 - \$103,301) to Diamond Tenders (Belgium) N.V.

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

CRITICAL ACCOUNTING ESTIMATES

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

The following policies are considered to be the critical accounting policies as they involve the use of significant estimates:

Mineral Properties

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

On the commencement of commercial production, the net capitalized costs are charged to operations on a unit-of-production basis, by property, using the estimated indicated resources (probable diamond reserves) as the depletion base.

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The Company carries its mineral properties at cost less a provision for impairment. The Company defers exploration and development costs, which are related to specific projects until the commercial feasibility of the project is determinable. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects. The costs of each property and related expenditures will be amortized over the economic life of the property on a units-of-production basis. Costs are charged to operations when a property is abandoned or when impairment in value that is other than temporary has been determined.

The Company undertakes a review of the carrying values of mineral properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value. In undertaking this review, management of the Company is required to make significant estimates of, among other things, geological potential, the estimated indicated resources (probable diamond reserves), future production and sales volume, unit sales prices, future operating and capital costs and reclamation costs to the end of the project's life. These estimates are subject to various risks and uncertainties, which may ultimately have an affect on the expected recoverability of the carrying values of the mining properties and related expenditures.

Note Payable

The note has been accounted for as a compound financial instrument comprising both a financial liability and an equity instrument. The allocation of the proceeds of the note between the two components was based on the estimated present value of the future payments of principal and interest on the note, discounted at the prevailing rate for a similar note without a conversion privilege, and the estimated fair value of the conversion privilege based on a Black-Scholes option pricing model.

Stock-based Compensation

The Company accounts for its grants under the Employees' and Directors' Equity Incentive Plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a graded basis over the vesting period. The Company used the Black-Scholes option pricing model to estimate the value of the options granted.

Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, generally using the enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

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ADOPTION OF NEW ACCOUNTING STANDARDS & OTHER PROPOSED FUTURE ACCOUNTING CHANGES

Effective July 1, 2008, 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*; and (d) Section 3031, *Inventories*. The main requirements of these new standards and the resulting financial statement impact are described below.

a. 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 34) but had no effect on the consolidated financial statements of the Company.

b. Section 3862, Financial Instruments – Disclosure:

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 4) but had no effect on the financial statements of the Company.

c. 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 4) but had no effect on the consolidated financial statements of the Company.

d. Section 3031, Inventories:

This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value.

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e. Other Future Accounting Changes:

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

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

Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2009.

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

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

FINANCIAL INSTRUMENTS

The Company classified its cash as held-for-trading and accounts receivable as loans and receivable with the amounts recorded at fair value. The investment in Minemakers Limited is classified as available-for-sale and is recorded at fair value. Accounts payable and accrued liabilities and notes payable were classified as other liabilities with the amounts recorded at fair value.

The Company operates internationally and as such is exposed to fluctuations in foreign exchange rates. The Company does not currently use financial instruments to limit its exposure to fluctuations in foreign exchange rates.

RISKS

The Company's properties and operations are subject to certain risks including but not limited to government regulations related to mining, mineral prices and currency fluctuations, competition, receipts of permits and approval from government authorities, operating hazards and other risks inherent to mineral exploration, development and mining operations.

Political Risks

The Company strives to minimize political risk by monitoring events in countries where it operates or where it considers operating, and by complying with local laws and regulations. The Company operates and conducts exploration activities in countries which have experienced civil unrest and/or civil warfare

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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.

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

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parties, any or all of which may have a material adverse effect on the Company's financial position. The mining and processing systems and the vessels to be used in the Sea Diamonds Project are to be at sea year round, and weather conditions will inevitably have an effect on operations. Other projects of this type have succeeded, but some have experienced problems during operations and cost overruns. Technical problems may affect the operations of the Sea Diamonds Project which may adversely affect profitability.

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

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

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

The Company has investigated its rights to explore and exploit its concessions and, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that applicable governments will not revoke, or significantly alter the conditions of, the applicable exploration and mining authorizations and that such exploration and mining authorizations will not be challenged or impugned by third parties. Mining and prospecting licenses may be revoked by the applicable government authorities for failure to perform the obligations thereunder. Licenses must be renewed periodically. The renewal process involves a review of the license holder's performance by government authorities.

Directors and officers of the Company may have conflicts of interest

Certain of the directors of the Company are directors or officers of, or have shareholdings in, other mineral resource companies. If, and to the extent that, such other companies participate in business ventures in which the Company also participates, those directors may have a conflict of interest. These other mineral resource companies may also compete with Company for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director who has such a conflict will disclose the conflict to a meeting of the directors of the Company and will refrain from participating in any Board decisions concerning the matter giving rise to the conflict. In appropriate circumstances, the Company will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict.

In accordance with the laws of the Yukon Territory, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. The Company's directors and senior officers have advised the Company that they intend to bring forward to the Company in priority to others, new opportunities that become available to them for the acquisition of, or participation in, diamond properties in the countries in which the Company is presently active as described in this Annual Information Form, for the consideration of the Company's Board of Directors. In such event, the

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Company will apply the procedures and mechanisms set forth above. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

Exchange controls may restrict the Company's ability to repatriate earnings

Namibia is part of the South African Rand Common Monetary Area ("CMA"). Exchange controls in the CMA require that dividends, loans, repayment of loans and payment of all invoices to parties outside the CMA by companies registered in the CMA require prior approval. The controls, as they relate to Namibia, are applied by the Bank of Namibia. There can be no assurance that the Company will obtain the requisite approvals in the future to repay loans or pay invoices to parties outside the CMA, including companies within the Company's corporate group not resident in the CMA. Thus exchange controls may restrict the Company from repatriating funds and using those funds for other purposes.

Profitability may be affected by fluctuations in the market price of gem quality diamonds

Diamond production from the Sea Diamonds Project has been, and is anticipated to be, 95% gem quality. There is no assurance that prices received in the market place will be at the same level as the prices used in the financial analyses of the Company's feasibility study of the Sea Diamonds Project. The United States currently accounts for approximately half of worldwide consumption of diamond jewellery by value. There can be no assurance that an economic recession in the United States, a global recession, increased supplies, or the actions of De Beers authorities will not adversely affect the prices the Company will receive for its diamonds and its revenues from mining operations.

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.

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Operations carried on by the Company in respect of the Sea Diamonds Project will be subject to government legislation, policies and controls relating to prospecting, development, production, importing and exporting of minerals, concession tenure, exchange controls, mining taxes, labour standards and environmental protection. There can be no assurance that such legislation, policies and controls will not have a material adverse effect on the business, operations and affairs of the Company.

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

All aspects of the Company's offshore diamond mining operations are subject to environmental regulation. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Although the Company's environmental management plan for the Sea Diamonds Project has been approved by the Namibian government, there is no assurance that future changes in environmental regulation will not adversely affect the Sea Diamonds Project. Environmental hazards may exist on the Company's concessions which are presently unknown to the Company and which have been caused by previous or existing owners or operators of the properties.

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

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

OUTSTANDING SHARE DATA

At September 28, 2009, a total of 46,921,346 common shares of the Company were outstanding. Stock options outstanding at September 28, 2009 totalled 170,000 with exercise prices ranging from Cdn\$1.10 to Cdn\$1.35 per share and expiry dates between August 31, 2010 to March 18, 2012.

DISCLOSURE CONTROLS AND PROCEDURES

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

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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.

Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company requires outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size.

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.