DIAMOND FIELDS
RESOURCES INC.

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

INTRODUCTION

On December 6, 2017, the Company changed its name from **Diamond Fields International Ltd** to **Diamond Fields Resources Inc.**

This management discussion and analysis of financial position and results of operations ('MD&A") of Diamond Fields Resources Inc. ("Diamond Fields", or "the Company") should be read in conjunction with the unaudited consolidated interim financial statements of Diamond Fields Resources Inc. The quarterly financial statements at December 31, 2017 are unaudited and have not been reviewed by the Company's external auditor. The effective date of this MD&A is February 28, 2018. Additional information about Diamond Fields is available on SEDAR at www.sedar.com.

OVERVIEW

Description of business

Diamond Fields is a Canadian public company listed on the TSX Venture Exchange. The Company is active in mineral exploration, and has ongoing business interests in Namibia, Madagascar and in the Red Sea (jointly managed by The Kingdom of Saudi Arabia and the Republic of Sudan). The Company's assets consist of zircon (Madagascar) and diamond (Namibia) mining licences, as well as an interest in a zinc, copper, silver, manganese and gold mining licence (Red Sea).

The Company's trading symbol on the TSX Venture Exchange is DFR.

Strategy

The Company's strategy is to create a new mid-tiered mining company through developing and exploiting its existing assets with a view to producing cash flow towards setting-up medium and long-term objectives.

In 2017, the Company advanced this objective by settling arrangements with its contracted offshore mining partner, International Mining and Dredging Holdings Proprietary Limited ("IMDH"), securing various commitments pertaining to the mining of its mid-depth offshore marine diamond property off the coast of Namibia, near the town of Luderitz, designated as "ML111". In 2018, the Company intends to advance work on its Beravina (zircon) project, which is expected to be the subject of a resource statement by end of year. The Company also remains open to the acquisition of new assets, particularly copper, gold, cobalt, diamonds, nickel and zircon projects.

During 2018, Diamond Field's aim to increase shareholder value is the following:

(i) following a successful bulk sampling program (which resulted in material diamond production over a 60 day testing period in late 2016), facilitate Namibian authorization and access over its most advanced Namibian concession, ML111, as soon as cruise schedules permit, to enable IMDH to implement an initial mining program;

(ii) advance work on its Beravina property with a view to re-assaying existing core, completing additional metallurgical and mineralogical testwork, completing an additional phase 2 drill program, and filing a National Instrument 43-101 report on its high-grade, hard-rock, zircon property; and

(iii) Undertake a study examining the feasibility of developing its shallow water offshore concession, ML32, located just North of Luderitz in Namibia, in conjunction with its concession partner, Full Screen Investments (Pty) Ltd.

The Company's management believes it is well placed to develop its strategy through the business strengths discussed below:

Strong Management

The Company has a board and a management team with substantial expertise and experience to fully exploit its zircon, diamond, and three marine mineral projects, as well as to operate within Africa and the Middle East. A combined experience-base of more than 50 years of working on remote properties in Madagascar gives the Company the expertise that it requires to advance and, if thought appropriate, develop and exploit the Company's Beravina (zircon) Property. The Company is also looking at bolstering its management team with further technical support – particularly zircon technical and marketing experience – in the coming months.

The Board is constituted by a blend of technical, legal, financial, political and operational expertise, providing balanced guidance to project advancement.

RESULTS OF OPERATIONS

Projects

During the six month ended December 31, 2017, the company incurred exploration expenditures of $173,390 (2016: $77,325).

Madagascar Zircon

In August 2016, the Company reached agreement with Pala Investments Limited ("Pala") and Austral Resources Limited ("Austral") to acquire the Beravina zircon deposit in Madagascar through DFI's wholly owned subsidiary Kimberley Overseas Ltd ("Kimberley"). Under the Agreement, Kimberley acquired 100% of the issued and outstanding shares of Action Mining Limited ("Action"), a Mauritius company and the parent company of the Madagascar entity holding the licence to the Beravina deposit.

Beravina is a pegmatite hosted hard rock zircon deposit located approximately 325 kilometers west-northwest of Antananarivo, the capital of Madagascar. The deposit is characterized by a small surface footprint, with the mineralised pegmatite describing a steeply dipping cone-shaped structure. An historical independent JORC compliant geological resource estimate on the property, undertaken by Badger Mining and Consulting (Pty) Ltd. in 2012, estimated an indicated resource of 1.8mt at 29.5% zircon, open at depth. This historical resource estimate is considered relevant by Company, as it formed the primary justification for the acquisition of the Beravina Project.

The Company cautions that the resource estimate is historical in nature and the Company is not treating such resources as a current resource under NI 43-101. Investors are further cautioned that a qualified person has not yet completed sufficient work to be able to verify the historical resources, and therefore they should not be relied upon.

Limited metallurgical work undertaken to date indicates that the zircon ore can be liberated and concentrated by crushing and gravity separation.

The Company is finalizing metallurgical and marketing work designed to further information as to the quality of zircon that might be produced from the project and market conditions for such product.

Namibian Marine Concessions

The Company's marine diamond mining licence, ML111, is held by Diamond Fields Namibia (Pty) Limited ("DFN"), a subsidiary of the Company, and was renewed in December 2017 and is now valid to December 4, 2025. DFN also holds mid to deep water offshore concessions ML138 and ML139. The licence on ML138 expires in Nov 2019, and ML139 expires in Nov 2029. The near shore concession ML32 is held in Namibian Diamond Company (Pty) Limited ("NDC"), which is owned 70% by the Company and 30% by a private Namibian company, Full Screen Investments (Pty) Ltd.

On April 1, 2015, the Company entered into a Sale of Shares Agreement and a Shareholders Agreement with IMDH related to the Company's offshore concessions in Namibia. In accordance with these agreements, IMDH can earn up to an 80% interest in DFN and NDC through the completion of four stages of project milestones. IMDH has completed Stages 1 and 2, and the Company expects to be notified of IMDH's completion of Stage 3 in the near future, which together include an extensive geophysical survey, regional sampling program and a bulk sampling programme, respectively.

Atlantis II, Red Sea, Saudi Arabia

The Atlantis II deposit comprises a series of interlinked sub-basins predominantly infilled by a series of SEDEX (Sedimentary Exhalative) sedimentary sequences. A 30-year mining licence, issued by the Joint Red Sea Commission to Manafa International Trade Company ("Manafai"), was as per a 2011 agreement, to be transferred into a joint venture company. DFR was entitled per agreement to 50.1% with Manafai holding 49.9% of shares in this joint venture company.

Diamond Fields has subsequently completed an independent resource analysis based of the original core data from the Atlantis II Deeps collated by Preussag. The resource estimate was undertaken by A.C.A. Howe Ltd and filed with SEDAR in 2011. The resource statement for the project is:

SUMMARY OF THE 2011 ACA HOWE
INFERRED RESOURCE FOR THE ATLANTIS II DEEP DESPOSIT

	Wet Density	Sediment Volume m^3 [millions]	Sediment Tonnage [millions]	DSF* Tonnage [millions]	Metal Tonnes [thousands]	Metal Volume Grade	DSF* Metal Grade
Zinc	1.29	473.93	604.21	80.88	1,643	3.47 kg/m^3	2.03%
Copper	1.29	473.93	604.21	80.88	368	0.78 kg/m^3	0.46%
Silver	1.29	473.93	604.21	80.88	3.35	7.07 g/m^3	41.14g/t

* Dry Salt Free (DSF)
The report is based on 589 cores collated from the Preussag A.G. exploration results (1969- 1979).

Development of the project has been hindered since April 2013, with the Company and Manafai in dispute over contractual terms.

Madagascar Nickel Exploration program

On December 21, 2017, the company disposed of its wholly owned subsidiary, Nickel Fields (Mauritius) Ltd, for a consideration of $400,000.

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

BOARD CHANGES

On February 5, 2018, David Reading was appointed as Director of the Company.

The Board is now comprised of seven (7) Directors, being Norman Roderic Baker, Bertrand Boulle, Francois Collette, Al Gourley, Sybrand van der Spuy, David Reading and Earl Young.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the six month ended December 31, 2017 and 2016:

	2017	2016
Total revenues	-	-
Other income	1,170,000	-
Net Profit/(Loss)	702,505	(670,360)
Net earnings/(loss) per share (basic and diluted)	(0.02)	(0.01)

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Net profit for the six month period ended December 31, 2017 was $702,505 or $0.02 per share, compared with a net loss of $670,360 or $0.01 per share for the same period in 2016. The company received $670,000 from International Mining and Dredging Holdings (Pty) Limited representing DFR share of the 2016 bulk sampling program. DFR also realised a gain of $400,000 following the disposal of its wholly owned subsidiary, Nickel Fields (Mauritius) Ltd, for a consideration of $400,000.

General and administrative expenses amounted to $99,414 during the six month ended December 31, 2017 compared to $108,404 during the six month ended December 31, 2016. Administrative costs were higher during 2016 due to an increase in expenditure in costs related to investor relations following the one to five share consolidation implemented by the Company.

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

SELECTED QUARTERLY DATA

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

	30-Dec-17	30-Sep-17	30-Jun-17	31-Mar-17	31-Dec-16	30-Sep-16	30-Jun-16	31-Mar-16
Total Revenues	-	-	-	-	-	-	-	-
Net Profit/(Loss)	890,112	(187,607)	(729,160)	(108,942)	(151,446)	(518,914)	(119,682)	(103,074)
Net Earnings / (Loss) per Share (basic and diluted)[1]	0.02	(0.00)	(0.02)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)

CAPITAL RESOURCES AND LIQUIDITY

At December 31, 2017, the Company had a working capital deficiency of $1,189,596 including cash of $1,386,990 compared with a working capital deficiency of $732,679 including cash of $388,113 at December 31, 2016. The increase in working capital deficiency at December 31, 2017 is primarily a result of the Company's operational losses and exploration expenditures and recognition of derivative financial instruments valued to $1,001,944 as at December 30, 2017.

On March 27, 2014, the company issued a convertible debenture in the total principal amount of CAD $151,357 to Firebird Global Master Fund II Holdings, Ltd. ("Firebird"). The debenture has a one year term maturing March 26, 2015, with 8% interest payable semi-annually. The debenture had an option to be convertible into a total of 605,428 units (the "Units") at a conversion price of CAD $0.25 per unit. Each unit is comprised of one common share and one-half share purchase warrant, each whole warrant entitling the holder to acquire one additional common share on or before March 26, 2015 at a price of CAD$0.25 per share. The debenture replaced another debenture originally issued November 7, 2012 to Firebird that matured March 27, 2014. This debenture was subsequently acquired by Spirit Resources SARL on July 31, 2014. As the maturity date of the debenture has passed, this amount is now due on demand.

Share Transactions

On September 22, 2016, the Company effected a common share consolidation on the basis of five pre-consolidation common shares for one post-consolidation common share of the Company. All references to the number of shares and per share amounts have been restated (including historical figures) to give effect to the consolidation.

On September 23, 2016, the Company closed a CAD $1,000,000 financing on a post-consolidated basis through the issuance of 10,666,667 (post-consolidated) Units to Spirit Resources SARL (a private company controlled by Jean-Raymond Boulle) at a (post-consolidated) price of CAD $0.09375 per Unit. Each Unit was comprised of one (post-consolidated) common share and one (post-consolidated) warrant (the "Warrant"), each Warrant entitling the holder to purchase one additional (post-consolidated) common share at an exercise price of CAD $0.125 per share for five years from the date of issuance.

On August 25, 2016, the Company received acceptance from the TSX Venture Exchange to an Agreement among the Company, its wholly owned subsidiary Kimberley Overseas Ltd, Pala Investments Limited and Austral Resources Limited for the acquisition from Pala and Austral, through Kimberley, of 100% of the issued shares of Action Mining Limited, a Mauritius company and the parent company of the Madagascar entity holding the licence to the Beravina (zircon) Deposit in Madagascar. In accordance with the terms of the Agreement, on September 6, 2016 the Company issued a total of 653,131 common shares in its capital stock at a value of CAD $0.10 per share to Pala.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees and other parties by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12 of the latest audited financial statements.

Derivative Financial Instruments

The Company has determined that its functional currency is the US dollar and has issued non-broker warrants and conversion options on convertible debentures in a currency other than its functional currency. The Company measures the cost of the derivative financial instruments by reference to the fair value of the instruments at the date at which they are granted and revalues them at each reporting date. Estimating fair value for non-broker warrant transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the warrant, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value derivative financial instrument transactions are disclosed in Notes 13 of the latest audited financial statements.

Convertible Debentures

The Company has issued and modified convertible debentures, the valuation and accounting for which is complex and requires the application of management estimates and judgments with respect to the determination of appropriate valuation models, certain assumptions applied within such valuation models, whether the modification of the debt instruments are significant and certain aspects of the accounting method applied on initial recognition. The assumptions and models used for estimating fair value of convertible debenture transactions are disclosed in Note 14 of the latest audited financial statements.

Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

ADOPTION OF NEW ACCOUNTING STANDARDS & OTHER PROPOSED FUTURE ACCOUNTING CHANGES

Standards, amendments and interpretations not yet effective

The IASB or the International Financial Reporting Interpretations Committees ("IFRIC") have issued a number of new or revised standards or interpretations that will become effective for future periods and have a potential implication for the Company.

IFRS 9 *Financial Instruments*

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.
This standard will include changes in the measurement bases of the Company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised by the Company.

The standard is effective for annual periods beginning on or after January 1, 2018 with retrospective application, early adoption is permitted.

The Company has not early adopted this standard and is currently assessing the impact on its financial statements.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange of those goods and services.

The directors of the Company do not anticipate that the application of IFRS 15 in the future will have a material impact on the amounts reported and disclosures made in the Company's financial statements. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 *Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following lease Standard and Interpretations upon its effective date:

- IAS 17 *Leases*
- IFRIC 4 *Determining whether an arrangement contains a lease*
- SIC 15 *Operating Lease – Incentives*; and
- SIC 27 *Evaluating the Substance of Transactions involving the Legal Form of a Lease*

IFRS 16 is effective for reporting periods beginning on or after January 1, 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

The directors of the Company do not anticipate that the application of IFRS 16 in the future will have a material impact on the amounts reported and disclosures made in the Company's financial statements.

The Company has not early adopted any of these standards or interpretations and is currently assessing the impact of the revised standards and interpretations on its financial statements.

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 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, loans and shareholders' equity. The Company's policy is to fund ongoing exploration activities, as well as its administration and corporate activities, from the issuance of shares and debt instruments. 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 has current plans to raise capital or borrow funds, although there is no certainty that such financing will be available with terms acceptable to the Company. 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. There are no outside restrictions on the Company's capital.

The Company's capital management policies have not changed during the year.

(ii) Financial Instrument Risks

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

<u>Market Risk</u>

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, equity price risk and commodity price risk.

Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between currencies with which the Company transacts will affect the Company's operations and financial results. The Company primarily transacts business in Namibia, Madagascar and West Africa and purchases goods and services denominated in US dollars, Namibia dollars, Madagascar Ariary and South African Rand. 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.

Equity price risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company holds no equity holdings and is therefore not exposed to this risk.

Commodity price risk

Commodity price risk is the uncertainty associated with the valuation of assets arising from changes in commodities. The Company is not currently impacted by such risk as its mineral properties are at an early exploration stage.

Credit risk

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

Liquidity risk

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

RISKS

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

Political Risks

The Company strives to minimize political risk by monitoring events in countries where it operates or where it considers operating, and by complying with local laws and regulations. The Company operates and conducts exploration activities in countries which have experienced civil unrest and/or civil warfare in recent years. It attempts to minimize the risks inherent in conducting operations and exploration in frontier areas by monitoring local conditions and avoiding high risk areas.

Additional financing Requirement

The Company's ability to continue its activities depends on the Company obtaining additional financing. The Company plans efforts to raise additional financing to meet its debt repayment obligations, continue its exploration activities and maintain its exploration properties. There can be no assurance as to the success of future financing activities necessary to meet its debt obligations and operating requirements.

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.

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 and zircon)

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, zircon and/or nickel over and above those previously identified. Even if commercial quantities of diamonds, zircon and/or nickel are discovered, economic recovery is dependent upon a number of factors, including the particular attributes of the deposit, such as terrain, size and grade, diamond prices and government regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Most of these factors are beyond the control of the Company.

Offshore diamond mining involves significant risks

The business of offshore diamond mining is subject to a variety of risks such as accidents, extreme marine and weather conditions, natural disasters, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences, against which the Company cannot, or may elect not to, insure, may result in damage to or destruction of mining equipment and infrastructure, injuries and loss of life, environmental damage, delayed production, increased production costs and possible legal liability to third parties, any or all of which may have a material adverse effect on the Company's financial position. The mining and processing systems and the vessels to be used in the sea diamonds projects 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 projects 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.

Certain of the Company's mining and exploration concessions are not in good standing, there can be no assurance that circumstances will 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 licences may be revoked by the applicable government authorities for failure to perform the obligations there under. Licences must be renewed periodically. The renewal process involves a review of the licence 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 British Columbia, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. The Company's directors and senior officers have advised the Company that they intend to bring forward to the Company in priority to others, new opportunities that become available to them for the acquisition of, or participation in, diamond properties in the countries in which the Company is presently active as described in this Annual Information Form, for the consideration of the Company's Board of Directors. In such event, the Company will apply the procedures and mechanisms set forth above. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

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

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

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

Diamond production from the sea diamonds projects has, and is anticipated to again contain a high percentage of gem quality stones. 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 Company's diamond projects are located off the coast of Namibia and are subject to the laws and regulations of Namibia. Although mining in Namibia has a long history and has never been adversely impacted by unreasonable or arbitrary government action, there can be no assurance that the Company's business, operations and affairs will not be materially adversely affected by changes to, or arbitrary application of, Namibian laws and regulations or changes in the political and economic status of Namibia.

Operations carried on by the Company in respect of its diamond projects 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 pthe profitability of the sea diamonds projects

All aspects of the Company's 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 plans for offshore diamond mining has been approved by the Namibian government there is no assurance that future changes in environmental regulation will not adversely affect such projects. 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.

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

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

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

OUTSTANDING SHARE DATA

On September 22, 2016, the Company effected a common share consolidation on the basis of five pre-consolidation common shares for one post-consolidation common share of the Company. All references to the number of shares and per share amounts have been retroactively restated to give effect to the consolidation.

At February 28, 2018, a total of 47,344,996 common shares of the Company were outstanding. Stock options outstanding at February 28, 2018 totalled 3,852,800, with exercise prices ranging from CAD $0.145 to CAD $0.50 per share and expiry dates between July 19, 2018 to December 12, 2021. Stock warrants outstanding at February 28, 2018 totalled 10,666,667, with exercise price CAD $0.125 per share and expiring September 23, 2021.

RELATED PARTY TRANSACTIONS

The Company provided the following compensation to key management personnel of the Company for the period ended December 30, 2017 and 2016, which are recorded in the following accounts in these consolidated financial statements:

	2017	2016
	$	$
Salaries (Earl Young, Chief Financial Officer)	**18,000**	18,000

OFF BALANCE SHEET ARRANGEMENTS

There are no known off balance sheet arrangement that may affect the operations of the Company.