

*Consolidated Financial Statements of*

**DIAMOND FIELDS INTERNATIONAL LTD.**

*For the year-ended June 30, 2016*

## **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) "Sybrand Van Der Spuy"  
Sybrand Van Der Spuy  
President and Chief Executive Officer  
October 27, 2016

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Diamond Fields International Ltd.

We have audited the accompanying consolidated financial statements of Diamond Fields International Ltd., which comprise the consolidated statements of financial position as at June 30, 2016 and 2015 and the consolidated statements of comprehensive loss, changes in shareholders' deficiency, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Diamond Fields International Ltd. as at June 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Diamond Fields International Ltd.'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

October 27, 2016

**DIAMOND FIELDS INTERNATIONAL LTD.****Consolidated Statement of Financial Position****As at June 30, 2016 and 2015****(Expressed in U.S. dollars)**

	Notes	<u>June 30, 2016</u>	<u>June 30, 2015</u>
		\$	\$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		192,187	273,345
Prepaid expenses and other receivables		28,900	28,263
		<u>221,087</u>	<u>301,608</u>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities		233,755	241,357
Convertible debentures	13	116,365	122,486
Loan payable	14	757,725	714,927
Derivative financial instruments	12	-	17,090
		<u>1,107,845</u>	<u>1,095,860</u>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	11	53,548,701	53,248,701
Contributed surplus	11	3,675,964	3,675,964
Accumulated other comprehensive income		3,357	1,263
Accumulated deficit		(58,114,780)	(57,720,180)
		<u>(886,758)</u>	<u>(794,252)</u>
		<u>221,087</u>	<u>301,608</u>
Nature and continuance of operations	2		
Subsequent events	20		
<i>"Sybrand Van Der Spuy"</i>		<i>"Earl Young"</i>	
<u>Director</u>		<u>Director</u>	

The accompanying notes form an integral part of these consolidated financial statements

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Consolidated Statement of Comprehensive Loss**  
**For the years ended June 30, 2016 and 2015**  
**(Expressed in U.S. dollars)**

	Notes	June 30, 2016	June 30, 2015
		\$	\$
<b>OPERATING EXPENSES</b>			
Salaries and benefits		60,689	85,749
Exploration expenditures	7	119,572	230,215
General and administrative expenses	8	182,485	200,292
		<u>(362,746)</u>	<u>(516,256)</u>
Fair value movement on derivative instruments	12	15,138	90,640
Other income		29	-
Loss on conversion of convertible debentures		-	(1,325)
Gain on expiry of derivative financial instruments	12	-	11,237
Foreign exchange gain/(loss)		4,342	(14,616)
Interest and accretion	9	(51,363)	(68,496)
<b>NET LOSS FOR THE YEAR</b>		<u><b>(394,600)</b></u>	<u><b>(498,816)</b></u>
Exchange difference on translation of foreign operations		2,094	30,761
<b>COMPREHENSIVE LOSS FOR THE YEAR</b>		<u><b>(392,507)</b></u>	<u><b>(468,055)</b></u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>		<u><b>(0.01)</b></u>	<u><b>(0.02)</b></u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>		<u><b>31,570,440</b></u>	<u><b>26,620,971</b></u>

The accompanying notes form an integral part of these consolidated financial statements

**DIAMOND FIELDS  
INTERNATIONAL LTD.**  
**Consolidated Statement of Changes in Shareholders' Deficiency**  
**For the years ended ended June 30, 2016 and 2015**  
**(Expressed in U.S. dollars)**

	Number of shares	Share capital \$	Contributed surplus \$	Accumulated deficit \$	Accumulated other comprehensive Income/(loss) \$	Total \$
Balance at June 30, 2014	24,977,135	52,924,964	3,675,964	(57,221,364)	(29,498)	(649,934)
Debentures converted into equity	1,333,333	132,826	-	-	-	132,826
Warrants exercised on conversion of debenture	1,333,333	190,911	-	-	-	190,911
Translation adjustment	-	-	-	-	30,761	30,761
Loss for the year	-	-	-	(498,816)	-	(498,816)
Balance at June 30, 2015	<u>27,643,801</u>	<u>53,248,701</u>	<u>3,675,964</u>	<u>(57,720,180)</u>	<u>1,263</u>	<u>(794,252)</u>
Private placement	8,381,400	300,000	-	-	-	300,000
Translation adjustment	-	-	-	-	2,094	2,094
Loss for the year	-	-	-	(394,600)	-	(394,600)
Balance at June 30, 2016	<u><b>36,025,201</b></u>	<u><b>53,548,701</b></u>	<u><b>3,675,964</b></u>	<u><b>(58,114,780)</b></u>	<u><b>3,357</b></u>	<u><b>(886,758)</b></u>

The accompanying notes form an integral part of these consolidated financial statements

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2016 and 2015**  
**(Expressed in U.S. dollars)**

	<b>June 30, 2016</b>	June 30, 2015
	\$	\$
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Net loss for the year	<b>(394,600)</b>	(498,816)
Items not affecting use of cash		
Gain on expiry of derivative financial instruments	-	(11,237)
Foreign exchange gain	<b>(5,979)</b>	(2,312)
Interest and accretion	<b>51,363</b>	68,496
Loss on conversion of convertible debentures	-	1,325
Fair value movement on derivative instruments	<b>(15,138)</b>	(90,640)
Net change in non-cash operating working capital items (Note 15)	<b>(16,804)</b>	(90,968)
	<b>(381,158)</b>	(624,152)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares	<b>300,000</b>	190,911
Loan received	-	690,000
	<b>300,000</b>	880,911
<b>CHANGE IN CASH</b>	<b>(81,158)</b>	256,759
<b>CASH, BEGINNING OF YEAR</b>	<b>273,345</b>	16,586
<b>CASH, END OF YEAR</b>	<b>192,187</b>	273,345

Supplemental cash flow information (Note 15)

The accompanying notes form an integral part of these consolidated financial statements



**DIAMOND FIELDS INTERNATIONAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2016 and 2015.**  
**(All amounts are expressed in U.S. dollars.)**

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**1. CORPORATE INFORMATION**

Diamond Fields International Ltd's ("DFI" or the "Company") business activity is the exploration and evaluation of mineral properties in South Africa, Namibia, Madagascar and the Red Sea. The Company was incorporated under the Canada Business Corporations Act on May 28, 2000, and has continued as a company under the Business Corporations Act of British Columbia. The Company is listed on the TSX Venture Exchange, having the symbol DFI, as a Tier 2 mining issuer and is in the process of exploring its mineral properties.

The Company's ultimate controlling party is Jean-Raymond Boulle through his private investment company, Spirit Resources SARL ("Spirit").

The address of the Company's corporate office and principal place of business is Suite 303, 595 Howe Street, Vancouver, British Columbia V6C 2T5, Canada.

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.

**2. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN**

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

As at June 30, 2016, the Company has an accumulated deficit of \$58,114,780 (2015: \$57,720,180) and a net loss of \$394,600 (2015: \$498,816) for the year ended June 30, 2016. The Company will need to source financing in order to fund operations through the coming twelve months. These conditions indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

To date, the Company has financed its activities through the issuance of equity securities and debt financing, primarily from significant shareholders of the Company. 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, these consolidated financial statements do not give effect to potentially material adjustments that would be necessary should the Company be unable to continue as a going concern.

**3. STATEMENT OF COMPLIANCE**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on October 27, 2016.

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2016 and 2015.**  
**(All amounts are expressed in U.S. dollars.)**

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**4. BASIS OF MEASUREMENT**

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit and loss, which have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The consolidated financial statements are presented in U.S. dollars (“USD”). The parent company’s functional currency is the USD while the functional currency of the subsidiaries is the same as the respective local currencies of the countries in which they are based.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s significant accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

*(a) Basis of consolidation*

Subsidiaries

Subsidiaries are wholly owned entities controlled by Diamond Fields International Ltd. (“the Parent”). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Parent. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, as shown below:

Name	Country of Incorporation	Class of Shares	Ownership Interest
Kimberley Overseas Ltd.	Cayman Islands	Common	100%
Diamond Fields Sierra Leone Ltd.	British Virgin Islands	Common	100%
Diamond Fields Namibia Ltd.	Namibia	Common	100%
Diamond Fields Operations Namibia Ltd.	Namibia	Common	100%
Diamond Fields Marine Ltd.	British Virgin Islands	Common	100%
Diamond Fields South Africa (Proprietary) Ltd.	South Africa	Common	100%
Maritime Projects Ltd.	British Virgin Islands	Common	100%
Gemfield International Ltd.	British Virgin Islands	Common	100%

Transactions eliminated on consolidation

Inter-company balances, transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**(All amounts are expressed in U.S. dollars.)**

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(b) Foreign currencies*

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the exchange rate in effect at the statement of financial position 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.

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 comprehensive loss.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the functional currency of the parent are translated into United States dollars as follows:

- a. assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- b. income and expenses for each statement of comprehensive loss are translated at exchange rates approximating the exchange rates in effect at the time of the transactions; and
- c. all resulting exchange differences are recognized within other comprehensive loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of intercompany loans are taken to other comprehensive loss.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the statement of comprehensive loss as part of the gain or loss on sale.

*(c) Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

*(d) Financial instruments*

Financial Assets

Financial assets are classified based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for fair value through profit and loss and loans and receivables is as follows:

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(d) Financial instruments (continued)*

Fair value through profit or loss (“FVTPL”)

A financial asset is classified as FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s documented risk management or investment strategy. On initial recognition material transaction costs are recognized in profit or loss as incurred. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Cash is classified as FVTPL and is accounted for at fair value.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Loans and receivables comprise of other receivables.

Impairment of Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. The Company has the following financial liabilities classified in the ‘other financial liabilities category’: accounts payable and accrued liabilities, convertible debentures and loan payable. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the year which are unpaid.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Compound Financial Instruments

The Company may issue compound financial instruments such as convertible debentures. Upon issuance, the Company determines whether the conversion feature represents an equity component or liability component. When the conversion feature represents an equity component, the proceeds received on issue of the convertible debenture are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortized cost until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option and is recognized within shareholders' equity, net of income tax effects.

If the conversion feature represents a liability, or if the convertible debenture includes any other embedded derivatives, they may be separated from the host contract and accounted for as a derivative when the following three criteria are satisfied:

- When the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The entire instrument is not measured at fair value with changes in fair value recognized in the statement of comprehensive loss.

The difference between the fair value of the total compound instrument and the fair value of the embedded derivative is assigned to the host contract. The embedded derivative is fair valued at each reporting date using an appropriate fair value valuation model with changes in the fair value being recognized immediately in net loss and comprehensive loss.

Where it is determined that the embedded derivative is not to be separated from the host instrument, the entire instrument will be carried at fair value through profit and loss, with fair value adjustments occurring subsequent to initial recognition being taken to the statement of comprehensive loss.

Derivative Financial Instruments

The Company may issue share purchase warrants and conversion options on convertible debentures that have an exercise price denominated in a currency that is different to the functional currency of the Company, thus causing them to be classified as derivative liabilities, which are measured at fair value through profit and loss. These instruments are measured at fair value through the application of an appropriate valuation model.

*(f) Mineral properties*

The Company's properties are all currently in the Exploration and Evaluation ("E&E") stage.

Acquisition and E&E expenditures incurred prior to the date of a positive economic analysis on the property are expensed as incurred. Direct costs incurred for the development of mineral properties, net of cost recoveries, are capitalized once the technical feasibility and commercial viability of extracting the mineral resource has been determined.

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 proven and probable reserves as the depletion base.

**DIAMOND FIELDS INTERNATIONAL LTD.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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(All amounts are expressed in U.S. dollars.)**

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**DIAMOND FIELDS INTERNATIONAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**(All amounts are expressed in U.S. dollars.)**

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(g) Share-based payments*

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied.

The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

*(h) Income taxes*

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2016 and 2015.**  
**(All amounts are expressed in U.S. dollars.)**

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(h) Income taxes (continued)*

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

*(i) Loss per share*

Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant year.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

*(j) Provisions*

*Rehabilitation Provisions*

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the obligation is incurred. The nature of the rehabilitation activities may include restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related properties, or in the case of E&E properties, charged to operations. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the year in which they occur. The Company does not have any rehabilitation provisions as at June 30, 2016.



**DIAMOND FIELDS INTERNATIONAL LTD.**  
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**(All amounts are expressed in U.S. dollars.)**

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Other Provisions*

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

*(k) Share capital*

Equity instruments are contracts that give a residual interest in the net assets of the Company. Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and stock options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

*(l) Inventory*

Diamond inventory acquired during the exploration stage is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price less applicable selling expenses.

*(m) Revenue*

Sales of diamonds are recognized when the risks and rewards of ownership pass to the customer and the price can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. Revenue from diamond sales is credited against mineral properties when generated from pre-commercial production; and to operations when generated from commercial production or if there are no capitalized mineral property costs.

*(n) New standards, amendments and interpretations not yet effective*

**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 in 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.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(n) New standards, amendments and interpretations not yet effective (continued)*

**Amendments to IFRS 11 Accounting for Acquisitions of interests in Joint Operations**

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles accounting for business combinations in IFRS 3 and other standards should be applied. The same requirement should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

The amendments apply for annual periods beginning on or after January 1, 2016 and early application is permitted.

The directors of the Company do not anticipate that the application of these amendments to IFRS 11 will have any impact on the Company's financial statements.

The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

**Disclosure Initiative (Amendments to IAS 1)**

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after January 1, 2016 and early application is permitted.

The directors of the Company do not anticipate that the application of these amendments to IAS 1 will have a significant impact on the Company's financial statements.

**Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset.

The amendments apply for annual periods beginning on or after January 1, 2016 and early application is permitted.

The directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Company's financial statements.

**Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41.

The directors of the Company do not anticipate that the application of these amendments to IAS 16 and IAS 41 will have a material impact on the Company's financial statements as the Company is not engaged in agricultural activities.

The new standards are required to be applied for annual reporting periods beginning January 1, 2016.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(n) New standards, amendments and interpretations not yet effective (continued)*

***Amendments to IFRS 10 and IAS 28 Sale or contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains and losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after January 1, 2016. The directors of the Company do not anticipate that the application of these amendments to IFRS 10 and IAS 28 will have a material impact on the Company's financial statements as the Company does not have any holdings in an associate or joint venture.

**6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date and the reported amounts of income and expenses during the period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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 11.

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**6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)**

**Derivative Financial Instruments**

The Company has determined that its functional currency is the US dollar and had 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 Note 12.

**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 13.

**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.

**7. EXPLORATION EXPENSES**

	<b>June 30, 2016</b>	June 30, 2015
	\$	\$
Atlantis II Red Sea project	<b>2,030</b>	50,491
South Africa Phosphate project	<b>15,201</b>	75,368
Namibian Diamond project	<b>65,347</b>	87,291
Other projects	<b>36,994</b>	17,065
	<b>119,572</b>	230,215

Exploration expenses by nature of expenditure are summarized below:

	<b>June 30, 2016</b>	June 30, 2015
	\$	\$
Consulting	<b>72,041</b>	173,160
Travel	<b>15,026</b>	29,497
Sample testing	<b>30,000</b>	12,737
Licenses	<b>2,505</b>	12,637
Field expenses	-	2,184
	<b>119,572</b>	230,215

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**7. EXPLORATION EXPENSES (CONTINUED)**

*Atlantis II Red Sea project*

The Company, through its joint venture partner, Manafa International Trade Company of Saudi Arabia (“Manafa”) holds an exclusive thirty (30) year mining license extending over the Atlantis II Deeps. Pursuant to the terms of the joint venture agreement, DFI owns 50.1% of the venture and Manafa owns 49.9%.

The Company has been in discussions with Manafa about project development and commitments due as part of the joint venture agreement between the two parties. On April 14<sup>th</sup> 2013 the Company has informed Manafa that in the opinion of the Company that they are in default of their contractual obligations, and as a result project development has been hindered. The Company requested that Manafa remedy the situation as a matter of urgency. In January 2014, Manafa informed the Company that they were unilaterally cancelling the agreement between the two parties. The Company has responded by informing Manafa of its intention to file for Arbitration under the International Centre for Dispute Resolution.

The Company continues to assert its rights to the project.

*South Africa Phosphate project*

The Company applied for an exploration licence over the western sector of the Outeniqua phosphates in December 2012 with the South African Department of Mineral Resources (“DMR”). The Company received notification from the DMR in February 2013 to complete an Environmental Management Plan (“EMP”) for the exploration licence and start consultation with Interested and Affected Parties (“IAPs”). The Company contracted the Council for Scientific and Industrial Research (“CSIR”) as independent Environmental Consultants in February 2013, and submitted the EMP and results of the public consultations to the DMR in May 2013. In January 2014, the Company was notified by the DMR that the Company had been successful in its application for an exploration licence. Final issuance of the licence is pending finalization on licencing terms and their acceptance by the Company. Exploration will not commence until this aspect has come to resolution.

*Namibian Diamond project*

The Company holds a 100% interest in certain diamond mining leases off the coast of Namibia. On April 1, 2015, the Company entered into a Sale of Shares Agreement and a Shareholders Agreement with International Mining and Dredging South Africa (“IMDSA”) related to the Company’s offshore claims in Namibia. In accordance with the agreements, IMDSA can earn up to an 80% interest in the Company’s subsidiary, Diamond Fields (Namibia) (Pty) Limited (“DFN”), which holds the claims after completion of four stages of project milestones agreed to by the parties. All costs of the four stage project are borne by IMDSA. All revenue generated from sales of minerals recorded during the four stage project shall be recovered by IMDSA up to IMDSA’s total exploration costs on the project. Thereafter, all revenues shall be divided on a pro-rata basis according to the Company’s and IMDSA’s respective shareholdings in DFN.

On February 10, 2016, the Company announced that the offshore marine diamond sampling operations on its Namibian concession ML-111 have been completed. These operations conclude the execution of Stage II of the Company’s agreement with IMDSA.

IMDSA has, with the execution of Stage II of the engagement, completed the technical portion to earn-in to a 50% share ownership of DFN. The related transfer of shares, as well as final engagement on the rest of this agreement, is pending conclusion of a number of conditions currently being addressed in the due diligence process between the two parties.

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**7. EXPLORATION EXPENSES (CONTINUED)**

*Other projects – Madagascar Nickel Exploration program*

The Company holds a 100% interest in the Valozoro nickel deposit in Madagascar. The Exploration Licences held against this property also allows for the exploration of semi-precious and precious stones. The Company is maintaining and delaying development of the property until nickel commodity prices recover to a sufficient level.

**8. GENERAL AND ADMINISTRATIVE EXPENSES**

	June 30, 2016	June 30, 2015
	\$	\$
Consulting	46,526	44,752
Investor relations and listing fees	31,466	30,040
Office	34,266	48,468
Regulatory	31,022	35,166
Professional fees	39,205	41,866
	<u>182,485</u>	<u>200,292</u>

**9. INTEREST AND ACCRETION**

	June 30, 2016	June 30, 2015
	\$	\$
Interest on loans and debentures	51,363	51,727
Accretion on debenture	-	16,769
	<u>51,363</u>	<u>68,496</u>

**10. INCOME TAXES**

Taxation in the Group's operational jurisdiction is calculated at the rate prevailing in its respective jurisdiction. There is no deferred tax charge arising for the Company for the year.

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2016	2015
Earnings (loss) for the year	\$ (394,600)	\$ (498,816)
Expected income tax (recovery)	(103,000)	(107,000)
Change in statutory, foreign tax, foreign exchange rates and other	4,275,000	(17,000)
Permanent Difference	(5,578,000)	(38,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(89,000)	-
Change in unrecognized deductible temporary differences	1,495,000	162,000
Total income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>

The Canadian income tax rate remained the same during the year ended June 30, 2016.

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**10. INCOME TAXES (CONTINUED)**

**Deferred Tax Assets and Liabilities**

The significant compounds of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2016	2015
Deferred Tax Assets (liabilities)		
Property and equipment	\$ 46,000	\$ 60,000
Canadian eligible capital (CEC)	31,000	41,000
Allowable capital losses	7,000	9,000
Non-capital losses available for future period	10,288,219	7,168,000
	<b>10,372,219</b>	<b>\$ 7,278,000</b>
Unrecognised deferred tax assets	\$	\$
	<b>(10,372,219)</b>	<b>(7,278,000)</b>
Net deferred tax assets	\$	\$
	-	-

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2016	Expiry Date Range	2015	Expiry Date Range
<b>Temporary Differences</b>				
Property and equipment	\$	No expiry date	\$ 231,000	No expiry date
	<b>177,000</b>			
Canadian eligible capital (CEC)	\$	No expiry date	\$ 157,000	No expiry date
	<b>120,000</b>			
Allowable capital losses	\$	No expiry date	\$ 34,000	No expiry date
	<b>27,000</b>			
Non-capital losses available for future period	\$	2026 to 2036	\$ 20,718,376	2026 to 2035
	<b>27,904,000</b>			

Tax attributes are subject to review, and potential adjustment, by tax authorities.

**11. SHARE CAPITAL**

**Authorized share capital**

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

During the year ended June 30, 2014, the Company entered into an escrow agreement with Spirit whereby 8,888,888 shares were subject to a three year escrow release schedule. As at June 30, 2016, no shares (2015: 3,466,667) were held in escrow.

**Issued and outstanding share capital**

On January 11, 2016, the Company completed a private placement of 8,381,400 shares at CAD \$0.05 from its major shareholder Spirit, raising proceeds of \$300,000.

During fiscal 2015, Spirit, converted a Convertible Debenture ("Debenture") in the principal amount of CAD \$150,000 at the conversion price of CAD \$0.0225 per share. This Debenture was



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originally issued by the Company on January 7, 2013 and was subsequently acquired by Spirit in a private transaction in 2014. Spirit also has fully exercised the warrants issued in connection with this conversion, providing the Company with gross proceeds of CAD \$210,000.

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**11. SHARE CAPITAL (CONTINUED)**

Accordingly, on November 17, 2014, the Company issued the following securities to Spirit:

- on conversion of the Convertible Debenture, 1,333,333 common shares (the "Shares") and warrants to purchase an additional 1,333,333 common shares, which were exercisable at CAD \$0.16 on or before January 7, 2015 (the "warrants"); and
- 1,333,333 shares were issued at a price of CAD \$0.16 per share on the full exercise of the Warrants.

The Securities are subject to a three year escrow release provision set out in an Escrow Agreement signed by Spirit.

**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 760,000 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 of a maximum of 40,000 common shares of the Company to employees of the Company and its affiliates, all of which have been issued.
- (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 40,000 common shares can be issued pursuant to the Share Purchase Plan.

**Outstanding and exercisable share options**

The following is a summary of changes in options from June 30, 2014 to June 30, 2016:

Grant Date	Expiry Date	Opening Balance	During the Year			Closing Balance
			Granted	Exercised	Forfeited / expired	
		687,000	730,000	-	(310,000)	1,107,000
07/19/13	07/19/18	-	-	-	(40,000)	(40,000)
		1,107,000	-	-	(40,000)	1,067,000
08/18/10	08/17/15	-	-	-	(437,000)	(437,000)
		<b>1,067,000</b>	-	-	<b>(437,000)</b>	<b>630,000</b>

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**11. SHARE CAPITAL (CONTINUED)**

The following is a summary of options outstanding and exercisable at June 30, 2016:

Grant Date	Expiry Date	Exercise Price (CAD)	Outstanding and exercisable at June 30, 2016
02/24/12	02/23/17	\$ 0.60	140,000
07/19/13	07/19/18	\$ 0.50	490,000
Balance at 30 June 2016			630,000

The weighted average exercise price of options outstanding as at June 30, 2016 was CAD \$0.52 (2015: CAD \$0.68) with exercise prices ranging from CAD \$0.50 to CAD \$0.90 (2015: CAD \$0.50 to CAD \$0.90).

**Share purchase warrants**

A summary of share purchase warrant activity and information concerning currently outstanding and exercisable warrants from June 30, 2014 to June 30, 2016 is as follows:

Grant Date	Expiry Date	Opening Balance	During the Year			Closing Balance	Exercisable
			Granted	Exercised	Forfeited / expired		
Balance at June 30, 2014		1,785,209	4,444,444	(4,444,444)	(185,209)	1,600,000	1,600,000
11/17/14	11/17/14	-	1,333,333	(1,333,333)	-	-	-
Balance at June 30, 2015		<b>1,600,000</b>	<b>1,333,333</b>	<b>(1,333,333)</b>	-	<b>1,600,000</b>	<b>1,600,000</b>
<b>5/15/13</b>	<b>5/14/16</b>	-	-	-	<b>(1,600,000)</b>	<b>(1,600,000)</b>	-
<b>Balance at June 30, 2016</b>		-	-	-	-	-	-

**Nature and purpose of equity**

The reserves recorded in equity on the Company's statement of financial position include "Contributed Surplus," "Accumulated Deficit" and "Accumulated Other Comprehensive Loss." "Contributed Surplus" is used to recognize the value of share option grants prior to exercise. "Accumulated Deficit" is used to record the Company's change in deficit from year to year. "Accumulated Other Comprehensive Loss" includes foreign exchange losses/gains on translating subsidiaries with a functional currency different from that of the Company.

**12. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company had issued various warrants for financing purposes at various prices. As the warrants have an exercise price denominated in Canadian dollars, which is different to the functional currency of the Company (U.S. dollars), the share purchase warrants are treated as a derivative financial liability and the fair value movement during the year was recognized in the statement of comprehensive loss.

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**12. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

The Company also had convertible debentures which contain derivative financial liabilities. The change in fair values of the derivative financial liabilities measured using the Binomial model is as follows:

	Warrants (Note 11)	Convertible debentures (Note13)	
Balance, June 30, 2013	\$163,795	\$8,390	\$172,185
Fair value of embedded derivatives	-	27,201	27,201
Expiry of derivative financial instruments	(29,604)	(8,390)	(37,994)
Movement in fair value	(12,309)	(14,196)	(26,505)
Movement in foreign exchange rates	-	(1,768)	(1,768)
<b>Balance, June 30, 2014</b>	<b>121,882</b>	<b>11,237</b>	<b>133,119</b>
Expiry of derivative financial instruments	-	(11,237)	(11,237)
Movement in fair value	(90,640)	-	(90,640)
Movement in foreign exchange rates	(14,152)	-	(14,152)
<b>Balance, June 30, 2015</b>	<b>17,090</b>	<b>-</b>	<b>17,090</b>
Expiry of derivative financial instruments	(15,138)	-	(15,138)
Movement in foreign exchange rates	(1,952)	-	(1,952)
<b>Balance, June 30, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

	<b>June 30, 2016</b>	June 30, 2015
Current portion of derivative financial instruments	<b>\$ -</b>	<b>\$ 17,090</b>

The fair value of the derivative financial instruments was determined using the Binomial valuation model using the weighted average assumptions outlined in the following table.

	<b>June 30, 2016</b>	June 30, 2015
Expected volatility	-	200%
Risk-free interest rate	-	0.49%
Expected life	-	0.9 year

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**13. CONVERTIBLE DEBENTURES**

	\$
Balance June 30, 2014	256,139
Foreign exchange	(18,921)
Accretion of convertible debt discount	16,769
Debt converted into equity	(131,501)
Balance June 30, 2015	122,486
Foreign exchange	(6,121)
Balance June 30, 2016	116,365

	June 30, 2016	June 30, 2015
	\$	\$
Current portion of convertible debenture	116,365	122,486

A summary of debentures is as follows:

Debenture issued to	Principal amount	Balance at June 30, 2016	Balance at June 30, 2015	Issuance date	Maturity
	CAD \$	US \$	US \$		
Spirit Resources SARL	151,357	116,365	122,486	March 27, 2014	March 26, 2015*

\*As the maturity date of the debenture has passed, this amount is now due on demand and the conversion feature of the debenture has expired.

On March 27, 2014 the Company issued a new convertible debenture in the total principal amount of CAD \$151,357 to Firebird Global Master Fund II Holdings, Ltd. ("Firebird"). The debenture had a one year term maturing March 26, 2015, with 8% interest payable semi-annually. The debenture was convertible into a total of 605,428 units (the "Units") at a conversion price of CAD \$0.25 per unit. Each unit was 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.

The new debenture was classified as a compound financial instrument that contains both derivative and debt characteristics. On issuance, the derivative financial liability component was assessed a value of \$27,201 using the binomial model. The residual value of the principal of the debenture of \$108,583 was assessed as the value of the debt component of the convertible debenture.

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**14. LOANS**

	<b>June 30, 2016</b>	June 30, 2015
Opening balance	\$ <b>714,927</b>	\$ -
Additions	-	690,000
Interest	<b>42,798</b>	24,927
	<b>757,725</b>	714,927

A summary of loans and their maturity profiles are as follows:

Loan received from	Principal amount	Fair value at June 30, 2016	Interest rate per annum	Issuance date	Maturity date
	\$	\$			
Spirit Resources SARL	<b>290,000</b>	<b>290,000</b>	6%	July 9, 2014	Dec 31, 2014*
Spirit Resources SARL	<b>400,000</b>	<b>400,000</b>	6%	March 1, 2015	March 1, 2016**
	<b>690,000</b>	<b>690,000</b>			

\*Loan payable matured December 31, 2014 and is now due on demand.

\*\* Loan payable matured March 1, 2016 and is now due on demand.

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

Changes in non-cash operating working capital items:

	<b>2016</b>	2015
	\$	\$
Increase in:		
Prepaid expenses and other receivables	<b>(637)</b>	(2,011)
Decrease in:		
Accounts payable and accrued liabilities	<b>(16,167)</b>	(92,979)
	<b>(16,804)</b>	(90,968)

There were no significant non-cash transactions for the year ended June 30, 2016.

The significant non-cash transactions for the year ended June 30, 2015:

- Issuance of 1,333,333 common shares and 1,333,333 share purchase warrants on conversion of a debenture with a principal balance of CAD \$150,000.

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**16. SEGMENTED INFORMATION**

At June 30, 2016, the Company operates in three main geographical locations below. Other operations comprise South Africa and British Virgin Islands and these do not constitute a separate reportable segment.

Assets by geographic location for the years ended June 30, 2016 and 2015 were as follows:

As at June 30, 2016	Head Office	Namibia	Other	Total
	\$	\$	\$	\$
Total assets	198,397	13,360	9,330	221,087

  

As at June 30, 2015	Head Office	Namibia	Other	Total
	\$	\$	\$	\$
Total assets	270,723	18,406	12,479	301,608

**17. 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 an 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:

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**17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS (CONTINUED)**

Market Risk

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 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.

The following table reflects the Company's foreign currency exposure as of June 30, 2016:

	Currency CAD	Currency NAD	Currency Other	Currency USD	Total
	\$	\$	\$	\$	\$
<b>Financial Assets</b>					
Cash and cash equivalents	13,141	4,388	983	173,675	192,187
Other receivables	5,917	9,277	6,334	2,031	23,559
	24,399	13,665	7,317	175,706	221,087
<b>Financial Liabilities</b>					
Accounts payable and accrued liabilities	168,263	29,358	8,142	27,992	233,755
Loan payable	-	-	-	757,725	757,725
Convertible debentures	116,365	-	-	-	116,365
	284,628	29,358	8,142	785,717	1,107,845

As at June 30, 2016, with other variables unchanged, a 10% change in the CAD to USD exchange rate would result in a \$23,000 (2015 - \$1,000) change in foreign exchange gain. Future changes in exchange rates other than the CAD would have an immaterial effect on the Company's business, financial condition and results of operations given the minimal financial instrument balances held in other than United States dollars.



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**17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS (CONTINUED)**

The Company does not have any other financial instruments subject to interest rate risk at June 30, 2016.

*Equity price risk*

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company has 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 exploration and evacuation assets 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 a 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. Following is a summary of the Company's liabilities and their respective due dates as at June 30, 2016:

	Total	< 1 year	1 – 2 years
	\$	\$	\$
Accounts payable and accrued liabilities	233,755	233,755	-
Loans payable	757,725	757,725	-
Convertible debentures	116,365	116,365	-
<b>Totals</b>	<b>1,107,845</b>	<b>1,107,845</b>	<b>-</b>

Determination of fair value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amounts for cash, receivables, accounts payable and accrued liabilities, loan payable and convertible debentures approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

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**17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS (CONTINUED)**

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - The hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This level includes non-listed equity investments.

The Company's cash is measured using Level 1 fair value measurements.

**18. ATLANTIS II AGREEMENT**

The Company, through its joint venture partner, Manafa International Trade Company of Saudi Arabia ("Manafa") holds an interest in an exclusive thirty (30) year mining license extending over the Atlantis II Deeps. Pursuant to the terms of the joint venture agreement dated August 3, 2008, DFI and Manafa agreed that these licenses would be transferred into a joint venture company ("JVC"). It was agreed that DFI would own 50.1% of the JVC and Manafa would own 49.9%. As of June 30, 2016, no JVC has been set up and all licenses are held by Manafa for the benefit of Manafa and DFI. The Company does not currently hold any interest in Manafa, but only in the Atlantis II license.

The Company has evaluated this arrangement under the criteria within IFRS 11, *Joint Arrangements*, and has concluded that the arrangement is not jointly controlled. As at June 30, 2016, there are no assets or liabilities which are subject to this agreement aside from the license itself. All costs incurred to date by DFI in relation to this license have been the sole responsibility of DFI and have been recorded in the statement of comprehensive loss/income.

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**19. RELATED PARTY TRANSACTIONS**

The Company provided the following compensation to key management personnel of the Company for the years ended June 30, 2016 and 2015, which are recorded in the following accounts in these consolidated financial statements:

	<u>2016</u>	<u>2015</u>
	\$	\$
Salaries and consulting fees	<u>36,000</u>	<u>84,000</u>

The following amounts were due to related parties as at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
	\$	\$
<b>Spirit Resources SARL</b>		
Loans due	<b>757,725</b>	714,927
Debentures due*	<b>116,365</b>	122,486

\*These debentures were acquired by Spirit from Firebird Global Master Fund II Holdings Ltd. Included in accounts payable and accrued liabilities as at June 30, 2016 is \$38,495 (2015: \$29,161) of accrued interest due on the debentures.

**20. SUBSEQUENT EVENTS**

On August 15, 2016 the Company announced that it has signed a conditional Purchase Agreement (the "Agreement") with Pala Investments Limited ("Pala") and Austral Resources Limited ("Austral") for the purchase of the Beravina Zircon deposit (the "Deposit") in Madagascar subject to acceptance by the TSX Venture Exchange (received August 25, 2016).

Pala and Austral collectively own 100% of the issued shares of Action Mining Limited ("Action"), a Mauritius company and the parent company of the Madagascar entity holding the license to the Deposit. Under the terms of the Agreement, DFI, through its wholly owned subsidiary Kimberley Overseas, will acquire 100% of the issued shares of Action. In consideration, DFI has agreed (a) to pay Pala \$300,000 (CAD \$391,878) and issue 653,130 common shares, and (b) pay Austral \$60,420 (CAD \$78,924).

In accordance with the terms of the Agreement, on September 6, 2016 the Company issued a total of 653,130 common shares to Pala. These shares are subject to a four month hold period under applicable Canadian securities laws.

On September 23, 2016, the Company closed a \$768,000 (CAD \$1,000,000) financing on a post-consolidated basis by the issuance of 10,666,667 post-consolidated Units to Spirit at a post-consolidated price of CAD \$0.09375 per Unit. Each Unit will be 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 share at an exercise price of CAD \$0.125 per share for five years from the date of issuance. These shares, including any that may be issued on exercise of the Warrant, will be subject to a four month hold period under applicable Canadian securities laws.