



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

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

### **INTRODUCTION**

This management discussion and analysis of financial position and results of operations ("MD&A") of Diamond Fields International Ltd. ("Diamond Fields", or "the Company") should be read in conjunction with the audited consolidated financial statements of Diamond Fields International Ltd. and the notes thereto for the year ended June 30, 2017. The effective date of this MD&A is October 30, 2017. Additional information about Diamond Fields, including its annual information form, is available on SEDAR at [www.sedar.com](http://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, or 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 primary focus of the Company is the development of properties that require relatively limited amounts of 'own capital', including properties that can be mined in conjunction with partners with expertise in marine exploration and exploitation. Its most advanced project is an offshore marine diamond property in a mid-water concession off the coast of Namibia, near the town of Luderitz, designated as ML111.

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

#### **Strategy**

Diamond Field's present strategy to increase shareholder value is the following:

- (i) Facilitate Namibian authorization and access over its most advanced Namibian concession, ML111, as soon as cruise schedules permit, to enable its concession shipping partner, International Mining and Dredging Holdings Proprietary Limited ("IMDH"), to implement an initial mining program following a successful bulk sampling program (which resulted in material diamond production over a 60 day testing period in late 2016);
- (ii) Advance work on its Beravina (zircon) Property with a view to completing metallurgical, process flowchart and market saleability studies so as to improve the information that is known about its high-grade, hardrock, zircon property and how it might be profitably developed; 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:

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

### **Strong Marine and diversified Portfolio of Assets**

The company has three marine mineral projects, at differing water depths, which have the potential to place the Company in a competitive position of developing this emerging mineral sector, as follows:

- **Namibia Offshore Diamond Concession:** the Company has produced high quality marine diamonds from its ML111 mining concession at depths of between 40m to 120m, off the coast of Namibia, where the Company has been active since 1995.
- **Namibia Shallow Offshore Diamond Concession:** the Company has produced high quality shallow water marine diamonds from its 70%-owned ML32 mining concession at depths of between 1m to 30m, off the coast of Namibia, where the Company has been active since 1995 (with an intention to re-engage in operations largely suspended in 2011).
- **Red Sea Offshore Copper-Zinc Project:** The Atlantis II project in the Red Sea between Saudi Arabia and Northern Sudan represents a truly globally-unique project that has attracted considerable attention from a variety of marine mining operators. The Company entered into an agreement with Manafa International Trade Company of Saudi Arabia, to form a joint venture in which the Company would hold a 50.1% interest. The company has refiled an amended NI43-101 produced by ACA Howe indicating 80 million tons of sediment of polymetallic muds grading at 2.03% Zn, 0.46% Cu, 2.69% Mn, and 41.14 ppm Ag at the inferred resource level of confidence.

### **Experienced Board**

The Board of Directors have extensive experience in working in Africa and the Middle East, and in developing projects within those regions. It is constituted by a blend of technical, legal, financial, political and operational expertise, providing balanced guidance to project advancement.

### **Technical Strengths**

The Company has over 20 years experience in recovering resources from the sea-floor and has collaborated with some of the world's leading Marine Institutes in developing an understanding of its marine resources.

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.

## **RESULTS OF OPERATIONS**

### **Projects**

During the year ended June 30, 2017, the company incurred exploration expenditures of \$200,583 (2016: \$119,572).

#### *Namibian Marine Concessions*

The Company's marine diamond and precious minerals mining licence, ML111, which is held by Diamond Fields Namibia (Pty) Limited ("DFN"), a subsidiary of the Company, expired in December 2015. Application was made for the renewal of this licence on a timely basis and in accordance with legal requirements with the Ministry of Mines and Energy, Namibia ("MME"). Namibian law provides that the licence remains valid until the licence is renewed. On 28 September 2017, the Company announced that DFN had received notification from the Namibian Ministry of Mines and Energy ("MME") that the Minister intended to renew the mining licence for a period of ten years. The renewal is subject to certain terms and conditions, which the Company is currently working with MME to address on or before November 20, 2017.

# DIAMOND FIELDS INTERNATIONAL LTD.

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

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

DFN also holds ML138 and ML139, both requiring renewals during 2017, which is expected to occur in the ordinary course. The near shore concession ML32 has been renewed by the Government of Namibia for a further term of 10 years, retrospectively from 2009, under the name of Namibian Diamond Company (Pty) Limited ("NDC"). Diamond Fields holds 70% of NDC with the remaining 30% being held 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 International Mining and Dredging Holdings Proprietary Limited 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 basin is situated on the axis of the Red Sea ridge complex at a depth of approximately 2,000 metres, roughly 115km west of Jeddah. It comprises a series of interlinked sub-basins predominantly infilled by a series of SEDEX (Sedimentary Exhalative) sedimentary sequences. DFI's engagement on The Atlantis II Project was through an agreement to form a joint venture with a Saudi Arabian company that holds the mining licence to this property, Manafa International Trade Company ("Manafa"). DFI was entitled by way of the agreement to a 50.1% interest in a joint venture company to be formed with Manafa for the purpose of holding the licence. The licence consists of a 30-year mining licence issued by the Joint Red Sea Commission, representing a development partnership between Saudi Arabia and the Republic of Sudan.

Diamond Fields has 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 <sup>3</sup> [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 <sup>3</sup>	2.03%
Copper	1.29	473.93	604.21	80.88	368	0.78 kg/m <sup>3</sup>	0.46%
Silver	1.29	473.93	604.21	80.88	3.35	7.07 g/m <sup>3</sup>	41.14g/t

\* Dry Salt Free (DSF)

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

# DIAMOND FIELDS INTERNATIONAL LTD.

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

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

---

In compiling the resource estimate, ACA Howe noted that:

- The estimated tonnages and grades include both high and low grade areas of the Atlantis II Deeps, of which only the top 8.5 meters of sediment has been sampled and the deposit is therefore open at depth. The average total thickness of the deposit is known to exceed 30 meters, at least in parts.
- Higher grade copper, zinc and silver mineralization is contained within the South West, West and Eastern sub-basins where metre core intersections of up to 22.47% zinc, 2.05% copper and 338 g/t silver have been obtained.
- Historic reports reference the presence of significant co-product metal values including:
  - lead (80,000 tonnes Pb) contained in Bischoff & Manheim (1966),
  - cadmium (6,500 tonnes Cd) contained in Preussag (1969),
  - gold (0.512 g/t Au for 47 tonnes Au),
  - cobalt (58.53 g/t Co for 5,368 tonnes of Co) contained in Gurney et al (1984), and
  - manganese (3.83 Mt Mn) contained in Bertram et al (2011).

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

Despite ongoing dialogue between the two parties, no resolution appears imminent, and the Company has informed Manafa of its intention to file for Arbitration under the International Centre for Dispute Resolution. Negotiations at the highest office of the Kingdom of Saudi Arabia ('KSA') have been undertaken to explore means at National strategic level to re-engage on this project in as efficient a manner as possible. To date, KSA has been unwilling or unable to resolve the dispute and the potential for legal action against the Joint Red Sea Commission, itself, is presently being explored. Efforts to protect the shareholder investment in the project can be expected to continue.

### *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.

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

---

*Madagascar Nickel Exploration program*

The Valozoro nickel deposit is located 60 kilometres north of the town of Fianarantsoa in south central Madagascar, where weathering and alteration of a harzburgite protolith has produced a type A Ni-laterite deposit up to 17 metres thick. The property has been the subject of several historical resource estimates since work first started in 1912. The Company has undertaken extensive channel sampling of the deposit and conducted two geophysical surveys over the property. The Company filed a NI 43-101 exploration update on the property in 2014 (see press release dated October 17, 2014), which indicates encouraging, relatively consistent nickel grades of 1.803% and 1.701% for the sapprolitic and sap-rock zones of the deposit.

The Company estimates that the next development phase will cost approximately US\$650,000 and involve approximately 2,900 metres of core drilling over a period of six months, and will yield the first compliant resource estimate for the property in terms of NI 43-101. The Company is maintaining the property until nickel commodity prices recover to a sufficient level, or technologies evolve to suggest cost-reductions in production methodologies, to justify further investment.

# DIAMOND FIELDS INTERNATIONAL LTD.

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

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

---

### BOARD CHANGES

On August 15, 2015, Gregg Sedun resigned as Director of the Company.

On November 8, 2016, Al Gourley was appointed as Chairman and Director of the Company.

On December 12, 2016, Francois Collette and Bertrand Boulle were appointed as Directors of the Company while Ian Ransome resigned as Director.

The Board is now comprised of six (6) Directors, being Norman Roderic Baker, Bertrand Boulle, Francois Collette, Al Gourley, Sybrand van der Spuy and Earl Young.

### SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the year ended June 30, 2017, 2016 and 2015:

	2017	2016	2015
Total revenues	-	-	-
Net Loss	(1,508,462)	(394,600)	(498,816)
Net loss per share (basic and diluted)	(0.03)	(0.01)	(0.02)
Cash	128,257	192,187	273,345
Total assets	160,679	221,087	301,608
Working capital deficiency	(1,963,851)	(886,758)	(794,252)

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 loss for the year ended June 30, 2017 was \$1,508,462 or \$0.03 per share, compared with a net loss of \$394,600 or \$0.01 per share for the same period in 2016. General and administrative expenses amounted to \$203,032 during the year ended June 30, 2017 compared to \$182,485 during the year ended June 30, 2016. This increase in administrative costs is due to an increase in expenditure in costs related to investor relations following the one to five share consolidation implemented by the Company.

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Management's Discussion and Analysis of Financial Condition and**  
**Results of Operations**  
**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

---

**SELECTED QUARTERLY DATA**

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

	30-Jun-17	31-Mar-17	31-Dec-16	30-Sep-16	30-Jun-16	31-Mar-16	31-Dec-15	30-Sep-15
Total Revenues	-	-	-	-	-	-	-	-
Net Loss	(729,160)	(108,942)	(151,446)	(518,914)	(119,682)	(103,074)	(99,385)	(72,459)
Net Loss per Share (basic and diluted) <sup>1</sup>	(0.02)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)

During the quarter ended June 30, 2017, the Company incurred a net loss of \$729,160 or \$0.02 per share. Share based compensation amounting to \$339,844 and fair value movement on derivative instruments amounting to \$261,944 were expensed in the quarter June 30, 2017.

**CAPITAL RESOURCES AND LIQUIDITY**

At June 30, 2017, the Company had a working capital deficiency of \$1,963,851 including cash of \$128,257 compared with a working capital deficit of \$886,758 including cash of \$192,187 at June 30, 2016. The decrease in working capital at June 30, 2017 is primarily a result of the Company's operational losses and exploration expenditures.

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.



**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Management's Discussion and Analysis of Financial Condition and**  
**Results of Operations**  
**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

---

*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 Boule) 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.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

### **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.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

### **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.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

### **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:

##### 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.

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Management's Discussion and Analysis of Financial Condition and**  
**Results of Operations**  
**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

---

*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.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

### *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.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

*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.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

*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.



# **DIAMOND FIELDS INTERNATIONAL LTD.**

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

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

---

*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 the 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.

# DIAMOND FIELDS INTERNATIONAL LTD.

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

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

---

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 October 30, 2017, a total of 47,344,996 common shares of the Company were outstanding. Stock options outstanding at October 30, 2017 totalled 3,452,800, 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 October 30, 2017 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 years ended June 30, 2017 and 2016, which are recorded in the following accounts in these consolidated financial statements:

	<u>2017</u>	<u>2016</u>
	\$	\$
Salaries (Earl Young, Chief Financial Officer)	<b>36,000</b>	36,000
Share based compensation	<b>339,844</b>	-

### OFF BALANCE SHEET ARRANGEMENTS

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