

# DIAMOND FIELDS RESOURCES

**DIAMOND FIELDS RESOURCES INC.**  
**Consolidated Financial Statements**  
**For the year ended June 30, 2018**

## **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 29, 2018

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Diamond Fields Resources Inc. (formerly Diamond Fields International Ltd.)

We have audited the accompanying consolidated financial statements of Diamond Fields Resources Inc. (formerly Diamond Fields International Ltd.), which comprise the consolidated statements of financial position as at June 30, 2018 and 2017 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity (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 Resources Inc. (formerly Diamond Fields International Ltd.) as at June 30, 2018 and 2017 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 Resources Inc. (formerly Diamond Fields International Ltd.)'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

October 29, 2018

**DIAMOND FIELDS RESOURCES INC.**  
**Consolidated Statements of Financial Position**  
**As at June 30, 2018 and 2017**  
**(Expressed in U.S. dollars)**

	Notes	June 30, 2018	June 30, 2017
		\$	\$
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash		1,425,450	128,257
Prepaid expenses and other receivables		29,100	32,422
		<b>1,454,550</b>	<b>160,679</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities	19	135,613	227,431
Convertible debentures	14,19	-	115,164
Loan payable	15,19	-	803,695
Derivative financial instruments	13	665,732	978,240
		<b>801,345</b>	<b>2,124,530</b>
<b>SHAREHOLDERS' EQUITY/(DEFICIENCY)</b>			
Share capital	12	55,633,167	53,647,079
Contributed surplus	12	4,046,823	4,015,808
Accumulated other comprehensive income / (loss)		989	(3,496)
Accumulated deficit		(59,027,774)	(59,623,242)
		<b>653,205</b>	<b>(1,963,851)</b>
		<b>1,454,550</b>	<b>160,679</b>
Nature and continuance of operations	2		
Subsequent events	20		
<i>"Sybrand Van Der Spuy"</i>			<i>"Bertrand Boulle"</i>
_____ Director			_____ Director

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

**DIAMOND FIELDS RESOURCES INC.****Consolidated Statements of Income/(Loss) and Comprehensive Income/(Loss)****For the years ended June 30, 2018 and 2017****(Expressed in U.S. dollars)**

	Notes	June 30, 2018	June 30, 2017
		\$	\$
<b>OPERATING EXPENSES</b>			
Salaries	19	111,871	52,149
Share based compensation	12,19	31,015	339,844
Mineral property acquisition costs	7	-	411,817
Exploration expenditures	8	391,707	200,583
General and administrative expenses	9	214,425	203,032
		<u>(749,018)</u>	<u>(1,207,425)</u>
Fair value movement on derivative instruments	13	305,106	(261,944)
Derecognition of expired payables		-	27,871
Interest expense	10	(48,692)	(55,611)
Gain on sale of subsidiary	8	392,000	-
Income from bulk sampling program	8	670,000	-
Interest income		9,308	-
Foreign exchange gain/(loss)		16,764	(11,353)
<b>NET INCOME/(LOSS) FOR THE YEAR</b>		<u>595,468</u>	<u>(1,508,462)</u>
Exchange difference on translation of foreign operations		4,485	(6,853)
<b>COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<u>599,953</u>	<u>(1,515,315)</u>
<b>BASIC INCOME/(LOSS) PER SHARE</b>		<u>0.01</u>	<u>(0.03)</u>
<b>DILUTED INCOME/(LOSS) PER SHARE</b>		<u>0.01</u>	<u>(0.03)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>		<u>49,146,698</u>	<u>44,739,299</u>

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

**DIAMOND FIELDS RESOURCES INC.**  
**Consolidated Statement of Changes in Shareholders' Equity/(Deficiency)**  
**For the years ended June 30, 2018 and 2017**  
**(Expressed in U.S. dollars)**

	<b>Number of shares</b>	<b>Share capital \$</b>	<b>Contributed surplus \$</b>	<b>Accumulated deficit \$</b>	<b>Accumulated other comprehensive Income/(loss) \$</b>	<b>Total \$</b>
Balance at June 30, 2016	36,025,199	53,548,701	3,675,964	(58,114,780)	3,357	(886,758)
Private placement	10,666,667	768,000	-	-	-	768,000
Share issue costs	-	(6,037)	-	-	-	(6,037)
Derivative financial instrument	-	(714,015)	-	-	-	(714,015)
Shares issued as consideration for acquisition of Action Mining Ltd.	653,130	50,430	-	-	-	50,430
Share based compensation	-	-	339,844	-	-	339,844
Translation adjustment	-	-	-	-	(6,853)	(6,853)
Loss for the year	-	-	-	(1,508,462)	-	(1,508,462)
Balance at June 30, 2017	<b>47,344,996</b>	<b>53,647,079</b>	<b>4,015,808</b>	<b>(59,623,242)</b>	<b>(3,496)</b>	<b>(1,963,851)</b>
Private placement	6,472,476	628,978	-	-	-	628,978
Share issue costs	-	(10,949)	-	-	-	(10,949)
Loan settlement	14,078,170	1,368,059	-	-	-	1,368,059
Translation adjustment	-	-	-	-	4,485	4,485
Share based compensation	-	-	31,015	-	-	31,015
Net income for the year	-	-	-	595,468	-	595,468
Balance at June 30, 2018	<b>67,895,662</b>	<b>55,633,167</b>	<b>4,046,823</b>	<b>(59,027,774)</b>	<b>989</b>	<b>653,205</b>

**DIAMOND FIELDS RESOURCES INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2018 and 2017**  
**(Expressed in U.S. dollars)**

	<b>June 30, 2018</b>	June 30, 2017
	<u>\$</u>	<u>\$</u>
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Net Income/(Loss) for the year	<b>595,468</b>	(1,508,462)
Items not affecting use of cash		
Foreign exchange gain	<b>(4,705)</b>	(5,773)
Mineral property acquisition costs	-	411,817
Gain on disposal of subsidiary	<b>(392,000)</b>	-
Share based compensation	<b>31,015</b>	339,844
Interest	<b>48,692</b>	45,970
De-recognition of expired payables	-	(27,871)
Fair value movement on derivative instruments	<b>(305,106)</b>	261,944
Net change in non-cash operating working capital items (Note 16)	<b>2,645</b>	16,884
	<b>(23,991)</b>	(465,647)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares (net)	<b>579,184</b>	761,963
Proceeds from loan payable	<b>350,000</b>	-
	<b>929,184</b>	761,963
<b>CASH FLOWS FROM /(USED IN) INVESTING ACTIVITIES</b>		
Cash acquired from acquisition of Action Mining Ltd.	-	174
Acquisition of Action Mining Ltd.	-	(360,420)
Cash from disposal of Nickel Fields Ltd.	<b>392,000</b>	-
	<b>392,000</b>	(360,246)
<b>CHANGE IN CASH</b>	<b>1,297,193</b>	(63,930)
<b>CASH, BEGINNING OF YEAR</b>	<b>128,257</b>	192,187
<b>CASH, END OF YEAR</b>	<b>1,425,450</b>	128,257

Supplemental cash flow information (Note 16)

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



**DIAMOND FIELDS RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 and 2017.**  
**(All amounts are expressed in U.S. dollars.)**

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**1. CORPORATE INFORMATION**

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

Diamond Fields Resources Inc's ("DFR" 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 ("TSX-V"), having the symbol DFR, 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 Boule 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.

**2. NATURE AND CONTINUANCE OF OPERATIONS**

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, 2018, the Company has an accumulated deficit of \$59,027,774 (2017: \$59,623,242) and a net income of \$595,468 (2017: net loss of \$1,508,462) for the year ended June 30, 2018.

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.

These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

**3. STATEMENT OF COMPLIANCE**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") effective for the Company's reporting for the year ended June 30, 2018.

The financial statements were authorized for issue by the Board of Directors on October 29, 2018.

**DIAMOND FIELDS RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 and 2017.**  
**(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 or 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 entities controlled by Diamond Fields Resources Inc. (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 Parent and its 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 South Africa (Proprietary) Ltd.	South Africa	Common	100%
Action Mining Ltd.	Mauritius	Common	100%
Compagnie Générale des Mines de Madagascar	Madagascar	Common	100%
Namibian Diamond Company (Proprietary) Limited	Namibia	Common	70%

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 RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 and 2017.**  
**(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 loss and comprehensive loss.

Subsidiaries

The results and financial position of all the subsidiaries (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 loss and 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.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the statement of loss and 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 or loss and loans and receivables is as follows:

**DIAMOND FIELDS RESOURCES INC.**  
**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)**

*(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.

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 are comprised 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.

**DIAMOND FIELDS RESOURCES INC.**  
**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 loss and 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 loss and comprehensive income.

Derivative Financial Instruments

The Company may issue share purchase warrants and conversion options on convertible debentures or as part of units 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 or 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 RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 and 2017.**  
**(All amounts are expressed in U.S. dollars.)**

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

*(g) Share based compensation*

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 loss and comprehensive loss over the vesting period described as the period during which all the vesting conditions are to be satisfied. 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 loss and comprehensive loss over the remaining vesting period.

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 loss and 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 compensation 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 compensation 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 RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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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. 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 for the years presented.

**DIAMOND FIELDS RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2018 and 2017.**  
**(All amounts are expressed in U.S. dollars.)**

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

*(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) Revenue*

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

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

**IFRS 9 *Financial Instruments***

On July 24, 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 basis of 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.

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 the directors of the Company do not anticipate that the application of IFRS 9 in the future will have a material impact on the amounts reported and disclosures made in the Company's consolidated 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 consolidated 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)**

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

**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 consolidated financial statements.

**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 Compensation 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.

**Derivative Financial Instruments**

The Company has determined that its functional currency is the US dollar and had issued non-broker warrants 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 13.

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

**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.

**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. ACQUISITION OF ACTION MINING LIMITED**

On August 25, 2016, the Company received acceptance from the TSX-V of the Sale and Purchase Agreement (the "Agreement") dated August 15, 2016 between the Company, its wholly owned subsidiary Kimberley Overseas Ltd. ("Kimberley"), Pala Investments Limited ("Pala") and Austral Resources Limited ("Austral"). The Agreement pertained to the acquisition from Pala and Austral, through Kimberley, of 100% of the issued and outstanding common shares of Action Mining Ltd. ("Action"), a Mauritius company and the parent company of a Madagascar entity holding the license to the Beravina Zircon Deposit in Madagascar.

Pursuant to the Agreement, Kimberly acquired 100% of the issued and outstanding common shares of Action on September 8, 2016 for consideration of \$360,420 in cash and the issuance of 653,130 common shares of the Company valued at CAD \$0.10 per common share for a total fair value of \$50,430. This transaction was treated as an asset acquisition.

<b>Purchase price</b>	<b>Amount</b>
Cash	\$360,420
Shares	50,430
	<b>\$410,850</b>
Cash	\$174
Exploration and evaluation assets	411,817
Accrued liabilities	(1,141)
<b>Net Assets</b>	<b>\$410,850</b>

Acquisition, Exploration and Evaluation expenditures incurred prior to the date of a positive economic analysis on the property are expensed as incurred.

The value of the Company's common shares was calculated based on the issuance of the Company's 653,130 common shares at a price per share of CAD \$0.10 which was the TSX-V closing price of the Company's common shares on the date the shares were issued.

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**8. EXPLORATION EXPENSES**

	<b>June 30, 2018</b>	June 30, 2017
	\$	\$
Atlantis II Red Sea project	<b>2,130</b>	-
South Africa Phosphate project	<b>13,967</b>	20,425
Namibian Diamond project	<b>235,097</b>	169,270
Beravina project	<b>135,918</b>	-
Other projects	<b>4,595</b>	10,888
	<b>391,707</b>	200,583

Exploration expenses by nature of expenditure are summarized below:

	<b>June 30, 2018</b>	June 30, 2017
	\$	\$
Consulting	<b>225,323</b>	185,680
Travel	<b>55,844</b>	10,538
Sample testing	<b>109,321</b>	-
Licenses	<b>1,219</b>	4,365
	<b>391,707</b>	200,583

*Atlantis II Red Sea project*

The Company, through its joint venture partner, Manafa International Trade Company of Saudi Arabia (“Manafa”) holds an interest in an exclusive thirty year mining license extending over the Atlantis II Deeps. Pursuant to the terms of the joint venture agreement dated August 3, 2008, DFR and Manafa agreed that these licenses would be transferred into a joint venture company (“JVC”). It was agreed that DFR would own 50.1% of the JVC and Manafa would own 49.9%. Advancement of the project has been hindered since April 2013 following a dispute with Manafa over contractual terms, as such the license held by Manafa for the benefit of Manafa and DFR has not transferred under joint ownership as no JVC had been set up. The Company does not currently hold any interest in Manafa, but only in the Atlantis II license. The Company continues to explore avenues to resolve the impasse.

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, 2018, there are no assets or liabilities which are subject to this agreement aside from the license itself.

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”). 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. Notwithstanding the foregoing, the Company has determined that it does not intend to advance the project at this time.

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**8. EXPLORATION EXPENSES (CONTINUED)**

*Namibian Diamond project*

The Company holds a 100% interest in certain diamond mining leases off the coast of Namibia. On April 1, 2015, and subsequently amended, the Company entered into a Sale of Shares Agreement and a Shareholders Agreement with International Mining and Dredging Holdings (Pty) Ltd. (“IMDH”) related to the Company’s offshore claims in Namibia to sell up to 80% of the interest, to be completed in four stages.

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 IMDH. During fiscal year 2018, the Company received \$670,000 as its share of the bulk sample proceeds.

In November 2017, the Company amended the earn-in agreement with IMDH, such that IMDH will no longer earn an interest in the license, but have an exclusive license to mine the property. As consideration for the right to mine, DFR will receive a sliding royalty based on production from the property.

*Madagascar Nickel Exploration program*

The Company held a 100% interest in the Valozoro nickel deposit in Madagascar through its wholly owned subsidiary Nickel Fields (Mauritius) Ltd. During fiscal 2018, the Company sold its interest for net proceeds of \$392,000 and recognised a gain on sale of subsidiary amounting to \$392,000.

*Madagascar Zircon project*

In August 2016, the Company, through its wholly owned subsidiary, Kimberley, reached an agreement with Pala and Austral to acquire Action Mining Ltd., a Mauritius company which wholly owns Compagnie Generale des Mines de Madagascar (CGMM), CGMM owns the mining license for the Beravina zircon deposit in Madagascar.

**9. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>June 30, 2018</b>	June 30, 2017
	\$	\$
Consulting	<b>63,825</b>	52,525
Investor relations and listing fees	<b>45,786</b>	38,292
Office	<b>53,476</b>	22,771
Regulatory	<b>34,433</b>	40,638
Professional fees	<b>16,905</b>	48,806
	<b>214,425</b>	203,032

**10. INTEREST**

	<b>June 30, 2018</b>	June 30, 2017
	\$	\$
Interest on loans and debentures	<b>48,692</b>	55,611
	<b>48,692</b>	55,611

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**11. INCOME TAXES**

Taxation is calculated at the rate prevailing in its respective operational 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:

	<b>2018</b>	2017
	\$	\$
Income/(Loss) for the year	<b>595,468</b>	(1,508,462)
Expected income tax (recovery)	<b>52,000</b>	(392,000)
Change in statutory, foreign tax, foreign exchange rates and other	<b>152,000</b>	1,222,000
Permanent Difference	<b>(57,000)</b>	173,000
Share issue costs	<b>(2,000)</b>	(2,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	<b>(28,000)</b>	1,208,000
Change in unrecognized deductible temporary differences	<b>(117,000)</b>	(2,209,000)
Total income tax expense (recovery)	<b>-</b>	-

**Deferred Tax Assets and Liabilities**

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

	<b>2018</b>	2017
	\$	\$
Deferred Tax Assets (liabilities)		
Property and equipment	<b>79,000</b>	77,000
Share issue costs	<b>3,000</b>	1,000
Allowable capital losses	<b>1,221,000</b>	1,191,000
Non-capital losses available for future period	<b>6,534,000</b>	6,685,000
	<b>7,837,000</b>	7,954,000
Unrecognised deferred tax assets	<b>(7,837,000)</b>	(7,954,000)
Net deferred tax assets	<b>-</b>	-

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:

	<b>2018</b>	<b>Expiry Date Range</b>	<b>2017</b>	<b>Expiry Date Range</b>
<b>Temporary Differences</b>				
Property and equipment	<b>294,000</b>	No expiry date	\$ 298,000	No expiry date
Share issue costs	<b>9,000</b>	2038 to 2041	\$ 4,000	2037 to 2040
Allowable capital losses	<b>4,521,000</b>	No expiry date	\$ 4,582,000	No expiry date
Non-capital losses available for future period	<b>17,023,000</b>	2023 to indefinite	\$ 17,256,000	2022 to indefinite

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

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**12. SHARE CAPITAL**

**Authorized share capital**

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

**Issued and outstanding share capital**

On May 24, 2018 the TSX-V accepted the Company's private placement of 6,472,496 common shares at a price of CAD 0.125 per share for gross proceeds of CAD 809,062. In addition, on May 25, 2018 the TSX-V approved the issuance of 14,078,170 common shares to settle a total of CAD 1,759,771 in outstanding debt owing to its major shareholder, Spirit Resources SARL.

Accordingly, on May 29, 2018 the Company issued a total of 20,550,666 common shares at CAD 0.125 per share, having an aggregate value of CAD 2,568,833.

**Issued and outstanding share capital**

On September 23, 2016, the Company closed a CAD 1,000,000 private placement by the issuance of 10,666,667 units to Spirit at a price of CAD 0.10 per unit. Each unit is comprised of one post-consolidated common share and one warrant, each warrant entitling the holder to purchase one additional share at an exercise price of CAD 0.125 per share for five years from the date of issuance.

On September 6, 2016 the Company issued a total of 653,130 common shares in its capital stock at a fair value of CAD 0.10 per share to Pala (Note 7).

**Stock Options**

The Company has adopted a fixed, less than 10% stock option plan (the "Plan"), under which the maximum number of stock options issued cannot exceed 4,700,000 of the Company's common shares, which vest and become exercisable in full upon grant, except for options granted to consultants performing investor relations activities, which vest in stages over twelve months. The exercise period for any options granted under the Plan cannot exceed ten years. The exercise price of options granted under the Plan cannot be less than the "discounted market price" of the common shares (the market price less the maximum discount permitted by the TSX-V).

**Outstanding and exercisable share options**

The following is a summary of changes in options from June 30, 2016 to June 30, 2018:

Grant Date	Expiry Date	Opening Balance	During the Year			Closing Balance
			Granted	Exercised	Forfeited / expired	
		1,067,000	-	-	(437,000)	630,000
12/12/2016	12/12/2021	-	2,962,800	-	-	2,962,800
02/24/2012	02/23/2017	-	-	-	(140,000)	(140,000)
		630,000	2,962,800	-	(140,000)	3,452,800
02/05/2018	02/04/2023	-	400,000	-	-	400,000
		<b>3,452,800</b>	<b>400,000</b>	-	-	<b>3,852,800</b>

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**12. SHARE CAPITAL (CONTINUED)**

**Outstanding and exercisable share options (continued)**

The following is a summary of options outstanding and exercisable at June 30, 2018:

Grant Date	Expiry Date	Exercise Price (CAD)	Exercisable at June 30, 2018	Outstanding at June 30, 2018
07/19/13	07/19/18	\$ 0.50	490,000*	490,000*
12/12/16	12/11/21	\$ 0.145	2,962,800	2,962,800
02/05/2018	02/04/2023	\$ 0.145	133,333	400,000
Balance at June 30, 2018			3,586,133	3,852,800

\* Expired subsequent to June 30, 2018.

The weighted average exercise price of options outstanding as at June 30, 2018 was CAD 0.19 (2017: CAD 0.20) with exercise prices ranging from CAD 0.145 to CAD 0.50 (2017: CAD 0.1450 to CAD 0.50).

During the year ended June 30, 2018, 400,000 stock options (2017 – 2,962,800) were granted to officers and directors. Using the below assumptions, the fair value of options granted during the year ended June 30, 2018 was \$0.115 per option (2017 - \$0.151), for total share based compensation of \$31,015 (2017 - \$339,844)

The fair value of options granted was determined using the Black-Scholes valuation model using the weighted average assumptions outlined in the following table.

	<b>June 30, 2018</b>	June 30, 2017
Expected volatility	<b>204%</b>	198%
Risk-free interest rate	<b>2%</b>	1.02%
Expected life (years)	<b>5</b>	5
Dividend yield	-	-
Forfeiture	-	-

**Share purchase warrants**

A summary of share purchase warrant activity and information concerning currently outstanding and exercisable warrants from June 30, 2016 to June 30, 2018 is as follows:

Grant Date	Expiry Date	Opening Balance	During the Year			Closing Balance	Exercisable
			Granted	Exercised	Forfeited / expired		
Balance at June 30, 2016		-	-	-	-	-	-
9/23/16	9/22/21	-	10,666,667	-	-	10,666,667	10,666,667
<b>Balance at June 30, 2017</b>		10,666,667	-	-	-	<b>10,666,667</b>	<b>10,666,667</b>
No movement during the year June 30, 2018		-	-	-	-	-	-
<b>Balance at June 30, 2018</b>		<b>10,666,667</b>	-	-	-	<b>10,666,667</b>	<b>10,666,667</b>
<b>Weighted average price CAD</b>		<b>\$0.125</b>	-	-	-	<b>\$0.125</b>	<b>\$0.125</b>

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**12. SHARE CAPITAL (CONTINUED)**

**Nature and purpose of equity**

The reserves recorded in equity on the Company's consolidated 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 US dollar.

**13. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company had issued 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. dollar), 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 loss and comprehensive loss.

The change in fair values of the derivative financial liabilities measured using the Binomial valuation model is as follows:

	Warrants (Note 12) \$
Balance, June 30, 2016	-
Issuance of derivative financial instruments (warrants)	714,015
Movement in fair value	261,944
Movement in foreign exchange rates	2,281
<b>Balance, June 30, 2017</b>	<b>978,240</b>
Movement in fair value	(305,106)
Movement in foreign exchange rates	(7,402)
<b>Balance, June 30, 2018</b>	<b>665,732</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, 2018</b>	June 30, 2017
Expected volatility	<b>196%</b>	195 - 200%
Risk-free interest rate	<b>1.68%</b>	1.32%
Expected life	<b>3.23 years</b>	4.23 - 5.00 years



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**14. CONVERTIBLE DEBENTURES**

	\$
Balance June 30, 2016	116,365
Foreign exchange	(1,201)
Balance June 30, 2017	115,164
Foreign exchange	2,697
Debenture settled during the year	(117,861)
<b>Balance, June 30, 2018</b>	<b>-</b>

A summary of debentures is as follows:

Debenture issued to	Principal amount	Balance at June 30, 2018	Balance at June 30, 2017	Issuance date	Maturity
	CAD \$	US \$	US \$		
Spirit Resources SARL	151,357	-	115,164	March 27, 2014	March 26, 2015

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 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. These debentures were subsequently acquired by Spirit.

The new debenture was classified as a compound financial instrument that contained 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.

During fiscal 2018, the Company issued 1,210,856 common shares to Spirit to settle the debentures of \$115,164 in full.

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**15. LOANS**

	<b>June 30, 2018</b>	June 30, 2017
	\$	\$
Opening balance	<b>803,695</b>	757,725
Loan received	<b>350,000</b>	-
Interest	<b>40,163</b>	45,970
Loan settlement	<b>(1,193,858)</b>	-
	<b>-</b>	<b>803,695</b>

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

<b>Loan received from</b>	<b>Principal amount</b>	<b>Balance at June 30, 2018</b>	<b>Interest rate per annum</b>	<b>Issuance date</b>	<b>Maturity date</b>
	\$	\$			
Spirit Resources SARL	<b>290,000</b>	-	6%	July 9, 2014	December 31, 2014
Spirit Resources SARL	<b>400,000</b>	-	6%	March 1, 2015	March 1, 2016
Spirit Resources SARL	<b>350,000</b>	-	0%	October 02, 2017	January 30, 2018

During fiscal 2018, the Company issued 12,867,314 common shares to Spirit to settle the loans and accrued interest of \$1,193,858.

**16. SUPPLEMENTAL CASH FLOW INFORMATION**

Changes in non-cash operating working capital items:

	<b>2018</b>	2017
	\$	\$
Decrease/(Increase) in:		
Prepaid expenses and other receivables	<b>3,322</b>	(3,522)
Increase in:		
Accounts payable and accrued liabilities	<b>(677)</b>	20,406
	<b>2,645</b>	<b>16,884</b>

The significant non-cash transactions for the year ended June 30, 2018:

Shares issued for debenture and interest settlement (note 14)	174,201
Shares issued for loan settlement (note 15)	1,193,858
Shares issued to settle director bonus	38,845
Currency translation adjustment on net assets	4,485

The significant non-cash transactions for the year ended June 30, 2017:

The Company issued 653,130 common shares with a fair value of \$50,430 to Pala (Note 7).

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**17. SEGMENTED INFORMATION**

At June 30, 2018, the Company operates in three main geographical locations below. Other operations comprise South Africa, Mauritius and British Virgin Islands and these do not constitute a separate reportable segment.

Assets by geographic location for the years ended June 30, 2018 and 2017 were as follows:

As at June 30, 2018	Head Office	Namibia	Other	Total
	\$	\$	\$	\$
Total assets	599,138	520,083	335,329	1,454,550

  

As at June 30, 2017	Head Office	Namibia	Other	Total
	\$	\$	\$	\$
Total assets	128,970	21,890	9,819	160,679

**18. 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 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 may attempt 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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**18. 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, 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.

The following table reflects the Company's foreign currency exposure as of June 30, 2018:

	Currency CAD	Currency NAD	Currency Other	Currency USD	Total
	\$	\$	\$	\$	\$
<b>Financial Assets</b>					
Cash	123,539	514,813	4,446	782,652	1,425,450
Other receivables	13,302	6,812	8,986	-	29,100
	136,841	521,625	13,432	782,652	1,454,550
<b>Financial Liabilities</b>	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	34,279	26,305	57,482	17,547	135,613
Derivative financial instruments	665,732	-	-	-	665,732
	700,011	26,305	57,482	17,547	801,345

As at June 30, 2018, with other variables unchanged, a 10% change in the CAD to USD exchange rate would result in a \$79,000 (2017 - \$163,000) change in foreign exchange gain (loss).

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

*Interest rate risk*

The Company does not have any financial instruments subject to interest rate risk at June 30, 2018.

*Equity price risk*

Equity price 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 evaluation 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. The following is a summary of the Company's liabilities and their respective due dates as at June 30, 2018:

	Total	< 1 year	1 – 2 years
	\$	\$	\$
Accounts payable and accrued liabilities	135,613	135,613	-

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, derivative financial instruments 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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**18. 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 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash is measured using Level 1 fair value measurements. The Company's derivative financial instruments are measured using level 3 inputs

**19. RELATED PARTY TRANSACTIONS**

The Company provided the following compensation to key management personnel of the Company for the years ended June 30, 2018 and 2017, which are recorded in the following accounts in these consolidated financial statements:

	<u>2018</u>	<u>2017</u>
	\$	\$
Salaries	<b>97,370</b>	36,000
Share based compensation	<b>31,015</b>	339,844

The following amounts were due to related parties as at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
<b>Spirit Resources SARL</b>	\$	\$
Loans payable	-	803,695
Convertible debentures*	-	115,164
Accounts payable	-	54,571

\*These debentures were acquired by Spirit from Firebird. Included in accounts payable and accrued liabilities as at June 30, 2018 is \$ nil (2017 - \$38,495) of accrued interest due on the debentures.

During fiscal 2018, the Company issued 14,078,170 common shares to Spirit to settle loans, accrued interest and debentures of \$1,368,059.

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**20. SUBSEQUENT EVENTS**

On August 28, 2018, the Company increased its stock option plan from 4,700,000 shares to 6,789,000 shares, which remains less than 10% of the Company's current 67,895,662 issued and outstanding share capital.

The Company granted stock options for the purchase of up to 1,837,200 common shares at an exercise price of CAD 0.145 per share for a five year term. These options will vest as to one third on the date of grant and, as to the balance, in two equal tranches over two years.