

# DIAMOND ND FIELDS R E S O U R C E S

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

# DIAMOND FIELDS RESOURCES INC.

## Management's Discussion and Analysis

Nine months and third quarter ended March 31, 2018

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

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### INTRODUCTION

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

*This Management's Discussion and Analysis ("MD&A") has been prepared as at 30 May 2018 and contains certain "forward-looking statements" under the Canadian securities laws. All statements, other than statements of historical fact included herein, including without limitation statements regarding potential mineralization, exploration results and future plans and objectives of Diamond Fields Resources Inc. ("Diamond Fields", or "the Company"), are forward-looking statements that involve various risks, uncertainties and assumptions. The MD&A should be read in conjunction with the unaudited consolidated interim financial statements of Diamond Fields Resources Inc. The nine months and third quarter financial statements ending March 31, 2018 are unaudited and have not been reviewed by the Company's external auditor.*

*Additional information about Diamond Fields is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

### OVERVIEW

#### Description of business

Diamond Fields is a British Columbia incorporated company listed on the TSX Venture Exchange. The Company is active in mineral exploration, and has ongoing business interests in Namibia, Madagascar and in the Red Sea (jointly managed by The Kingdom of Saudi Arabia and the Republic of Sudan).

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

#### Principal Assets

*Beravina (Zircon).* The Company through its Madagascar based subsidiary owns a Mining Licence ("Permis d'Exploitation" 8096) for the exploration and mining of the Beravina deposit that is valid until June 22, 2055. The Beravina Project has an historic JORC-Compliant Indicated Mineral Resource estimate of 1.8 million tons at 29% zircon (~530,000 tons of contained zircon). The Company cautions that the resource estimate is historical and as such is not treating it as a current resource under NI43-101. The Project, which covers 625 hectares, is located in Western Madagascar within the Melaky region and is approximately 220km east of the port of Maintirano, near a state road.

*Namibia (Diamond).* Through its Namibian subsidiaries the Company owns several offshore diamond mining licences in Namibia, including ML111 where the Company had historical diamond production (2001-2004, 2005-2008 and 2016). The Company also owns ML138, ML139 and 70% of ML32.

*Red Sea (Zinc, Copper, Manganese, Cobalt and others).* The Atlantis II basin containing the Atlantis II deposit is located at the bottom of the Red Sea, The Project is currently on hold pending resolution of a dispute with DFR's joint venture partner, Manafa International Ltd., over performance and contractual issues.

### REVIEW OF OPERATIONS

#### Highlights

##### *Equity Financing and Issuance of Shares in Settlement of Debt*

On May 29, 2018, the Company announced that on May 24, 2018, TSX-V had accepted the Company's private placement of 6,472,496 Common Shares at a price of C\$0.125 per share, in addition, on May 25, 2018 the TSX-V had approved the issuance of 14,078,170 Common Shares, at a deemed price of C\$0.125 per share to settle a total of C\$1,759,771 in outstanding debt owing to its major shareholder,

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Spirit Resources SARL. Accordingly, on May 29, 2018 the Company had issued a total of 20,550,666 common shares at C\$0.125 per share, having an aggregate value of C\$2,568,833. After closing the transactions, the Company had eliminated its outstanding loans and had C\$1,900,000 cash.

#### *Changes at Board and senior management level*

The Company continues to strengthen its Board and senior management.

On February 5, 2018, David Reading, a geologist with over 35 years' experience in mining and mine development, was appointed as a Director of the Company.

On April 25, 2018, Philip Murphy, CEO of World Titanium Resources and former Managing Director of TZ Mineral International Pty Ltd (TZMI), was appointed as a Director of the Company.

The Board is now comprised of eight (8) Directors, being Norman Roderic Baker, Bertrand Boule, Francois Collette, Al Gourley (Chairman of the Board), Sybrand van der Spuy (CEO), David Reading, Philip Murphy and Earl Young.

On March 19, 2018, Jean Lindberg Charles, an experienced CFO and Commercial Director, formerly CFO of Sierra Rutile Limited, was appointed as CFO and Secretary of the Company.

#### *Overall operation updates and performance*

During the quarter, the Company focussed on working with relevant authorities and potential contractors to progress its different projects in Namibia and in Madagascar.

The contracts for re-assaying historic samples and undertaking metallurgical upgrade test works of the Beravina zircon project were awarded during the quarter under review, results are expected prior to the financial year end. Subject to the results of the analysis and test works, further drilling and assays are expected to occur during the two last quarters of the calendar year.

The Company is also on track to re-start mining on its ML111 licence in Namibia through its contracting partner IMDH. The Company was asked to clarify various technical issues related to its authorization to mine ML 111 by IMDH, and the Company satisfied those requirements to the satisfaction of IMDH during the month of May of 2018.

The Company continues to review and assess the suitability of additional projects to the advancement of the Company's growth plans.

For the nine months and quarter ended March 31, 2018, revenue reported was \$1,074,826 and \$4,826 respectively (2017: \$15,616 and Nil). Net Comprehensive Profit/Loss amounted to Profit \$571,404 and Loss \$37,860 respectively (2017: Loss \$784,673 and \$109,564).

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### Review of selected financial and operating results

#### *Selected nine months and third quarter periods financial and non-financial results*

	Three months ended		Nine months ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
	\$	\$	\$	\$
Other income	4,826	-	1,074,826	15,616
Exploration expenditures	(164,010)	(42,680)	(337,400)	(120,006)
Mineral property acquisition costs	-	-	-	(411,817)
Administrative and corporate expenses	(95,446)	(52,406)	(227,360)	(205,715)
Fair value movement on derivative instruments	13,920	(13,855)	(48,271)	(57,380)
Differences on translation of foreign operations	37,860	(623)	109,610	(5,371)
Comprehensive (Loss) / Profit	(202,850)	(109,564)	571,405	(784,673)
Proceeds from Share Issue	-	-	-	768,000
Loan received	-	-	350,000	-
Weighted average number of shares outstanding (units)	47,344,996	47,344,996	47,344,996	47,344,996
EPS - basic (Cents)	(0.43)	(0.23)	1.21	(1.66)

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 (the "IFRS"). The MD&A includes certain non-IFRS measures, to provide meaningful information, where appropriate.

Revenue of \$4,826 for the quarter relates to interest income while revenue over the nine months to 31 March also includes proceeds of \$670,000 from IMDH for the Company's share of the 2016 bulk sampling program on its ML 111 licence in Namibia and \$400,000 from the disposal of Nickel Fields (Mauritius) Ltd. Expenditures have been partly offset against foreign exchange gains and gains on the translation of financial assets held in other currencies.

During the nine months and quarter under review, the Company incurred \$337,400 and \$164,010 Exploration expenditures (2017: \$120,006 and \$42,680) respectively, mainly in relation to the Namibian projects (\$172,449) and Beravina project (\$111,748). Administrative and corporate overheads amounted to \$227,360 and \$95,446 for the nine months and quarter ended March 31, 2018 compared to \$205,715 and \$95,446 for the nine months and quarter ended March 31, 2017 respectively.

The relatively higher costs during 2018 and the quarter under review relate mainly to:

- Administrative costs associated with preparing for the recommencement of mining on the Namibian marine concessions
- Preparatory works for the development of the Madagascar project and
- Increased corporate overheads reflecting the development of the business.

### Projects

#### *Revenue and Other Income*

During the quarter and nine months ended March 31, 2018, the Company incurred exploration expenditures of \$164,010 and \$337,400 (2017: \$42,680 and \$120,006) respectively.

#### *Madagascar Zircon*

In 2016, the Company acquired the Beravina zircon project in Madagascar from Pala Investments Limited. 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

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a small surface footprint, with the mineralised pegmatite describing a steeply dipping cone-shaped structure. A 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 the 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.

The Company entered into agreements with contractors during the quarter under review to re-assay the historic samples and to perform metallurgical test works with a view to determine the possibility of upgrading the Zircon into a commercially and economically saleable product. Works are well under way and results are expected towards the end of the second calendar quarter (last financial quarter). Subject to the results of the analyses and test works referred to above, the Company plans to perform further drilling and assays during the third quarter of the calendar year and is on track to file a NI 43-101 compliant report towards the last quarter of the financial year. Part of the funds that the Company is targeting to raise during the second quarter of the calendar year will be applied towards furthering development of the Beravina project.

The Company incurred \$111,748 and \$85,118 on the Beravina project during the nine months and quarter ended 31 March 2018 respectively (2017: Nil), and further funds are being channeled to complete re-assaying and metallurgical upgrade test works.

#### *Namibian Marine Concessions*

The Company's principal marine diamond mining licence, ML111, held by its subsidiary, Diamond Fields Namibia (Pty) Limited ("DFN"), has been renewed until December 4, 2025. DFN also holds mid to deep water offshore concessions ML138 and ML139. The ML138 and ML139 licences are valid until November 2019 and November 2029, respectively. The Company's subsidiary, Namibian Diamond Company (Pty) Limited ("NDC"), holds 70% in the near shore concession ML32, and the other 30% is held by a private Namibian company, Full Screen Investments (Pty) Ltd.

The Company incurred \$172,449 and \$60,387 on its Namibian diamond assets during the nine months and third quarter ended March 31, 2018, respectively (2017: \$8,325 and \$1,567). The Company and its mining partner, IMDH, are finalising all remaining details and targets in order to restart mining. The Company expects expenses on the project to be minimal in the next two quarters and will resume once mining restarts.

#### *Atlantis II, Red Sea, Saudi Arabia*

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

Diamond Fields has subsequently completed an independent resource analysis based on the original core data from the Atlantis II Deeps collated by Preussag. Development of the project has been hindered since April 2013 following a dispute with Manafai over contractual terms. The Company continues to explore avenues to resolve the impasse. No significant expenditure has been directly incurred on the project during the quarter under review.

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#### *Madagascar Nickel Exploration program*

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

#### SELECTED QUARTERLY DATA

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

	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016
Revenues/ Other Income	4,826	1,070,000	-	-	-	15,616	-	-
Net Profit/(Loss)	(240,711)	890,112	(187,607)	(729,160)	(108,942)	(151,446)	(518,914)	(119,682)
Net Earnings / (Loss) per Share (basic and diluted) <sup>1</sup>	(0.00)	0.02	(0.00)	(0.02)	(0.00)	(0.00)	(0.01)	(0.00)

#### CAPITAL RESOURCES AND LIQUIDITY

At March 31, 2018, the Company had current assets amounting to \$1,168,756, out of which cash amounted to \$1,121,156, compared to \$160,679 and \$128,257, respectively, as at 30 June 2017. The increase in cash follows the disposal of the Nickel Fields project (\$400,000), proceeds from the Company's share of the ML111 bulk sampling program from IMDH (\$670,000), as well as a loan (\$350,000) received during the previous quarter, partly offset by expenditures incurred.

Current Liabilities amounted to \$2,553,745 as at 31<sup>st</sup> March 2018, compared to \$2,124,530 as at 30 June 2017. The increase is mainly attributable to the \$350,000 loan received during the previous quarter and interest accrued on all loans amounting to \$43,688.

The reduction in Shareholders' deficit from \$1,963,851 at 30 June 2017 to \$1,384,989 at 31 March 2018 arose due to the reported net profit and the gain on the translation of balances held in foreign currencies by the Company's subsidiaries during the nine months ended 31<sup>st</sup> March 2018.

The Company announced on May 29, 2018 that it had closed an equity financing and issuance of shares in settlement of debt transaction, following which it had eliminated its outstanding loans and had cash balance of approximately C\$ 1,900,000.

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#### *Share Transactions*

The Company announced, on May 9, 2018, that the TSX-V had accepted its proposed private placement of 6,472,496 Common Shares and issuance of 14,078,170 Common Shares in settlement of debt, both at a price of CAD\$ 0.125 per share, bringing the total number of issued and outstanding shares to 67,895,662 Common Shares. No shares have been issued for the nine months ended 31 March 2018. During the year ended 30 June 2017, the company recorded the following 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.

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 at a (post-consolidated) price of CAD \$0.09375 per Unit. Each Unit 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 September 6, 2016 the Company issued a total of 653,131 common shares at a value of CAD \$0.10 per share to Pala Investments Limited as part of the purchase price of the Beravina project.

#### **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

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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 the fair value of convertible debenture transactions are disclosed in Note 14 of the latest audited financial statements.

#### *Title to Mineral Property Interests*

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

## **ADOPTION OF NEW ACCOUNTING STANDARDS & OTHER PROPOSED FUTURE ACCOUNTING CHANGES**

### **Standards, amendments and interpretations not yet effective**

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

#### *IFRS 9 Financial Instruments*

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will include changes in the measurement bases of the Company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised by the Company.

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

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

#### *IFRS 15 Revenue from Contracts with Customers*

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



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

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

#### *IFRS 16 Leases*

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

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

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

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

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

## **CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENT RISKS**

### (i) Capital Management

The Company's objective is to ensure it has sufficient capital to maintain its ongoing mining operations and safeguard its ability to continue as a going concern in order to pursue the continued development of its various mineral properties.

The Company's capital consists of cash and working capital, loans and shareholders' equity. The Company's policy is to fund ongoing exploration activities, as well as its administration and corporate activities, from the issuance of shares and debt instruments. The Company may acquire additional funds from capital or debt markets where advantageous circumstances arise. The Company assesses capital and debt markets on a case by case basis to minimize the cost of capital in the prevailing markets and maintain an optimal capital structure. The Company has current plans to raise capital or borrow funds, although there is no certainty that such financing will be available on 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.

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### *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 South 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 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 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 its ability to 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

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as to the success of future financing activities necessary to meet its debt obligations and operating requirements.

#### *Estimates of reserves and resources are inherently uncertain*

Sea diamond deposits are alluvial deposits located on the ocean floor. These deposits are difficult to sample because of their remote nature, variable terrain and the location of diamonds in irregular gravel beds lying above and within crevices and potholes in the bedrock. As a result, there are no standard sampling tools and resource estimation practices employed for these types of deposits.

There is a degree of uncertainty attributable to the calculation of reserves, resources and corresponding grades being mined or dedicated to future production. Until reserves or resources are actually mined and processed, the quantity of reserves or resources and grades must be considered as estimates only. In addition, the quantity of reserves or resources may vary depending on diamond prices, operating costs and mining efficiency. Any material change in the quantity of reserves, resources or grade may affect the economic viability of the Sea Diamonds Project. Mining tools currently available to the Company differ from those used for calculating indicated resources (probable reserves) in the 2000 feasibility study.

*Exploration activities will not necessarily result in the discovery of commercially recoverable quantities of targeted minerals (currently diamonds, zinc, copper, gold and nickel and zircon)*

Mineral exploration activities involve a high degree of risk and uncertainty. There is no assurance that continued exploration of the Company's concessions will result in any discovery of commercial quantities of diamonds, zircon and/or nickel over and above those previously identified. Even if commercial quantities of diamonds, zircon and/or nickel are discovered, economic recovery is dependent upon a number of factors, including the particular attributes of the deposit, such as terrain, size and grade, diamond prices and government regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. Most of these factors are beyond the control of the Company.

#### *Offshore diamond mining involves significant risks*

The business of offshore diamond mining is subject to a variety of risks such as accidents, extreme marine and weather conditions, natural disasters, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences, against which the Company cannot, or may elect not to, insure, may result in damage to or destruction of mining equipment and infrastructure, injuries and loss of life, environmental damage, delayed production, increased production costs and possible legal liability to third parties, any or all of which may have a material adverse effect on the Company's financial position. The mining and processing systems and the vessels to be used in the sea diamonds projects are to be at sea year-round, and weather conditions will inevitably have an effect on operations. Other projects of this type have succeeded, but some have experienced problems during operations and cost overruns. Technical problems may affect the operations of the sea diamonds projects which may adversely affect profitability.

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

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

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*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 mining 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 mining 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, mineral properties in the countries in which the Company is presently active for the consideration of the Company's Board of Directors. In such event, the Company will apply the procedures and mechanisms set forth above. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

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

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

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

Diamond production from the Company's offshore diamonds licences has historically contained a high percentage of gem quality stones and is anticipated to continue to do so. 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

## **DIAMOND FIELDS RESOURCES INC.**

### **Management's Discussion and Analysis**

**Nine months and third quarter ended March 31, 2018**

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

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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.

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.

## DIAMOND FIELDS RESOURCES INC.

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#### 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.

As at the date of this MD&A, a total of 47,344,996 common shares of the Company were outstanding. Stock options outstanding at the date of the MD&A totalled 3,852,800, with exercise prices ranging from CAD \$0.145 to CAD \$0.50 per share and expiry dates between July 19, 2018 to February 4, 2023. Stock warrants outstanding at the date of this MD&A totalled 10,666,667, with exercise price CAD \$0.125 per share and expiring September 23, 2021.

On May 29, 2018, the Company announced, that following acceptance by TSX-V of a private placement on May 24, 2018 and issuance of shares in settlement of debt on May 25, 2018, both at a price of C\$0.125 per share, the Company issued an aggregate of 20,550,666 Common Shares, bringing the total issued and outstanding shares to 67,895,662 Common Shares.

#### RELATED PARTY TRANSACTIONS

The Company provided the following compensation to key management personnel of the Company for the period ended March 31, 2018 and 2017, which are recorded in the following accounts in these consolidated financial statements:

	<u>2018</u>	<u>2017</u>
	\$	\$
Salaries and consulting fees	<b>24,000</b>	<b>27,000</b>
Legal fees	-	<b>33,607</b>
	<u><b>24,000</b></u>	<u><b>60,607</b></u>

#### POST AND OFF BALANCE SHEET ARRANGEMENTS [O/S TSX V confirmation]

On May 29, 2018, the Company announced having issued 20,550,666 Common Shares after obtaining acceptance from TSX-V for a private placement of 6,472,496 Common Shares and the issuance of 14,078,170 Common Shares in settlement of debt, both at a price of C\$0.125 per share.

As at the date of release of this MD&A, there are no other known post or off-balance sheet arrangement that may affect the operations of the Company.