



DIAMOND FIELDS
INTERNATIONAL LTD.

FIRST QUARTER REPORT

SEPTEMBER 30, 2001

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DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

	September 30, 2001 (Unaudited)	June 30, 2001
ASSETS		
CURRENT		
Cash	\$ 1,810,546	\$ 2,237,372
Accounts receivable	114,548	95,316
Diamond inventory	443,595	434,439
Prepaid expenses	81,482	78,869
	2,450,171	2,845,996
INVESTMENT	1	1
MINERAL PROPERTIES AND INTERESTS	12,440,582	12,505,736
CAPITAL ASSETS	671,897	656,590
	\$ 15,562,652	\$ 16,008,323
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 813,507	\$ 749,580
Due to joint venture partner	358,492	-
	1,172,000	749,580
NOTE PAYABLE	2,294,245	2,166,523
FUTURE INCOME TAXES	2,499,507	2,511,519
	5,965,752	5,427,622
SHAREHOLDERS' EQUITY		
Share capital		
Authorized - Unlimited number of common shares without par value		
Issued and outstanding - 52,427,418		
(June 30, 2001 - 52,534,318) shares	26,694,766	26,742,232
Equity portion of note payable	1,084,952	1,084,952
Deficit	(18,182,819)	(17,246,483)
	9,596,900	10,580,701
	\$ 15,562,652	\$ 16,008,323

DIAMOND FIELDS INTERNATIONAL LTD.**Consolidated Statements of Loss and Deficit**

(Unaudited)

(Expressed in Canadian Dollars)

	Three months ended September 30,	
	2001	2000
DIAMOND SALES	\$ 601,972	\$ -
OPERATING COSTS		
Production costs (including depreciation and depletion)	504,752	-
Royalties, selling and marketing	67,713	-
	572,465	-
ADMINISTRATIVE EXPENSES		
Accounting and audit	11,447	23,863
Consulting	83,559	10,214
Depreciation	4,215	4,500
Interest on note payable	119,089	-
Investor relations	37,591	31,322
Legal	36,322	2,195
Maintenance	9,075	8,395
Office	83,957	63,078
Regulatory	11,262	4,407
Salaries	341,514	248,959
Travel and accommodation	117,101	17,644
	855,132	414,577
OTHER INCOME		
Interest and other income	15,971	34,618
Foreign exchange (loss) gain	(72,706)	10,352
	(56,735)	44,970
LOSS BEFORE INCOME TAXES	882,360	369,607
Recovery of future income taxes	12,012	-
NET LOSS	870,349	369,607
DEFICIT, BEGINNING OF PERIOD	17,246,483	14,539,210
PREMIUM PAID ON PURCHASE OF COMMON SHARES FOR CANCELLATION	65,986	-
DEFICIT, END OF PERIOD	\$ 18,182,819	\$ 14,908,817
NET LOSS PER SHARE	\$ 0.02	\$ 0.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in 000's)	52,460	51,832

DIAMOND FIELDS INTERNATIONAL LTD.
Consolidated Statements of Cash Flows

(Unaudited)

(Expressed in Canadian Dollars)

	<u>Three months ended September 30,</u>	
	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (870,349)	\$ (369,607)
Items not involving use of cash		
Recovery of future income taxes	(12,012)	-
Accrued interest	38,132	-
Non-cash interest expense	80,957	-
Depreciation and depletion	65,154	4,500
Unrealized foreign exchange loss	8,633	-
Net change in non-cash operating working capital items	391,418	(322,729)
	<u>(298,066)</u>	<u>(687,836)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Common shares purchased for cancellation	(123,198)	-
Share capital issued, net of issue costs	9,746	-
	<u>(113,452)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on mineral properties and interests	-	(250,979)
Expenditures on other capital assets	(15,307)	-
	<u>(15,307)</u>	<u>(250,979)</u>
DECREASE IN CASH	(426,826)	(938,814)
CASH, BEGINNING OF PERIOD	2,237,372	2,476,945
CASH, END OF PERIOD	\$ 1,810,546	\$ 1,538,131
Other Supplementary Information:		
Interest received	\$ 15,971	\$ 34,618

DIAMOND FIELDS INTERNATIONAL LTD.
Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)
(Unaudited)

1) BASIS OF PRESENTATION

These interim financial statements do not contain all the information required by generally accepted accounting principles for annual financial statements and therefore should be read in conjunction with the most recent annual financial statements of the Company.

These financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements.

2) NOTE PAYABLE

Details of the note payable are described in Note 8 to the Company's most recent annual financial statements.

The financial liability component of the note is comprised of the following:

Total proceeds	\$ 3,073,600
Deduct portion allocated to the equity instrument	(1,084,952)
Financial liability component at inception	1,988,648
Add (deduct):	
Accretion of discount on issue	209,169
Accrued interest	114,878
Foreign exchange translation adjustment	(18,450)
Balance of financial liability component, September 30, 2001	\$ 2,294,245

The estimated future minimum annual repayments of the outstanding financial liability component at September 30, 2001 is as follows:

2002	\$ -
2003	1,463,895
2004	830,350
	<u>\$ 2,294,245</u>

The face value of the note plus accrued and unpaid interest to September 30, 2001 amounted to U.S.\$2,074,301.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Stated in Canadian Dollars)

Overview

Net loss for the quarter was \$870,349, or \$0.02, compared with \$369,607, or \$0.01 per share for the same period in 2000.

On March 5, 2001, the Company entered into a joint venture with Trans Hex Group Limited to mine two areas within the Company's Luderitz offshore diamond concessions in Namibia using airlift-type diamond mining vessels. On May 24, 2001, the joint venture began operations when Trans Hex deployed an initial vessel, the mv Ivan Prinsep, to the Marshall Fork area of the Company's Luderitz concessions. For the three months ended September 30, 2001, the Company recorded diamond sales from its joint venture operations of \$601,972 against direct operating costs of \$572,465 for a gross profit from operations of \$29,507. The Company's share of the assets, liabilities and operating results of the joint venture have been included in the Company's consolidated financial statements for the three months ended September 30, 2001.

At September 30, 2001, working capital was \$1,278,171, including cash of \$1,810,546, compared with working capital of \$2,096,416, including cash of \$2,237,372 at June 30, 2001. The decrease in both cash and working capital is largely attributed to the net loss for the quarter.

Cash flows from operating activities was a deficit of \$298,066 for the quarter ended September 30, 2001 compared to a deficit of \$687,836 for the same period in 2000. The improvement in 2001 was a result of the change in non-cash working capital items.

Joint venture operations

The mv Ivan Prinsep embarked on a program of trenching and mining in order to assess how airlift technology applies itself in the various geological and grade environments of the joint venture. From the commencement of the mv Ivan Prinsep program until September 30, 2001, the joint venture has produced 8,260 carats, of which the Company's share is 4,956 carats. A larger vessel, the mv Namakwa, replaced the mv Ivan Prinsep on November 6, 2001 and has commenced full-scale mining at the Marshall Fork area of the Company's Luderitz concessions.

The joint venture recorded its first diamond sales from its operations during the quarter, with the sale of 5,258 carats at U.S.\$128.88 per carat. The Company's share of the diamonds sold was 3,155 carats.

Administrative and other expenses

The Company recorded administrative expenses of \$855,132 during the quarter ended September 30, 2001 compared to \$414,577 in the same period last year. The difference is primarily the result of increases in salaries, consulting, travel and accommodation, and interest on note payable.

Salaries increased as a result of new management appointments and the hiring of personnel in Southern Africa to administer the Company's joint venture operations and to advance the Company's own projects that are outside of the joint venture. Consulting fees were paid to advisors assisting the Company in obtaining financing for such projects. Travel and accommodation expenses were incurred in the course of ongoing corporate stewardship of the Company's operations.

In February 2001, the Company received proceeds from a U.S.\$2,000,000 loan supported by a promissory note payable to a company controlled by a shareholder of the Company. The note bears interest at a rate of 6% per annum. Interest expense of \$119,089 was recorded for the quarter. Reference is made to Note 2 to these consolidated financial statements.

In the quarter ended September 30, 2001, the Company experienced a foreign exchange loss of \$72,706 as a result in a drop in the value of the Namibian dollar compared to the Canadian dollar. The exchange for the conversion of one Namibian dollar into one Canadian dollar was Cdn.\$0.1750 on September 30, 2001 compared to Cdn.\$0.1886 on June 30, 2001.

During the quarter, the Company spent \$123,198 on the purchase of 112,400 of its common shares from the open market at prices ranging from Cdn.\$1.50 to Cdn.\$0.65 per share, bringing the total number of shares purchased and cancelled under its normal course issuer bid to 117,500 common shares since the inception of the bid on June 1, 2001. During the quarter, the Company recorded a premium paid on purchase of these shares for cancellation of \$65,986.

Liquidity and outlook

Various risks, including fluctuations in diamond prices and foreign exchange rates, financing and global uncertainties, can impact on the Company's future profitability. Anticipated production levels are directly affected by improvements in mining technology, weather conditions and vessel availability.

The Company plans to develop and mine its known resource outside of the joint venture area. The Company is currently in discussions with prospective lenders respecting project financing for the purchase of its own dedicated mining vessel equipped with processing plant and mining equipment. Insofar as factors beyond the Company's control may adversely affect its access to funding, there can be no assurance that any such additional funding will be available to the Company or, if available, that it will be on acceptable terms.