



DIAMOND FIELDS

INTERNATIONAL LTD.

FIRST QUARTER REPORT

SEPTEMBER 30, 2002

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DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Balance Sheets

(Expressed in US Dollars)

	September 30, 2002 (Unaudited)	June 30, 2002
ASSETS		
CURRENT		
Cash	\$ 1,131,598	\$ 1,176,484
Accounts receivable	46,593	115,530
Inventory	24,090	243,612
Prepaid expenses	50,363	51,932
	1,252,645	1,587,558
INVESTMENT	1	1
MINERAL PROPERTIES AND INTERESTS	8,018,028	8,018,028
OTHER CAPITAL ASSETS	701,998	439,970
DEFERRED FINANCING COSTS	84,675	63,550
	\$ 10,057,347	\$ 10,109,107
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 512,964	\$ 429,150
Current portion of note payable (Note 2)	1,856,161	68,014
	2,369,125	497,164
NOTE PAYABLE (Note 2)	-	1,697,024
FUTURE INCOME TAXES	1,597,972	1,597,972
	3,967,097	3,792,160
SHAREHOLDERS' EQUITY		
Share capital		
Authorized - Unlimited number of common shares without par value		
Issued and outstanding - 52,941,038 (June 30, 2002 - 52,882,540) shares	18,790,215	18,774,804
Equity portion of note payable	705,981	705,981
Deficit	(12,401,212)	(12,159,104)
Cumulative translations adjustments	(1,004,734)	(1,004,734)
	6,090,250	6,316,947
	\$ 10,057,347	\$ 10,109,107

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Statements of Loss and Deficit

(Expressed in US Dollars)

(Unaudited)

	Three months ended September 30,	
	2002	2001
DIAMOND SALES	\$ 312,331	\$ 383,715
OPERATING COSTS		
Production costs (including depreciation and depletion)	150,023	321,744
Royalties, selling and marketing	20,442	43,162
	170,466	364,906
ADMINISTRATIVE EXPENSES		
Accounting and audit	22,850	7,297
Consulting	15,415	53,263
Depreciation	6,040	2,777
Interest on note payable	91,123	75,969
Investor relations	6,196	23,962
Legal	49,980	23,153
Maintenance	3,978	5,785
Office	63,061	53,517
Regulatory	3,307	7,179
Salaries	179,218	217,691
Travel and accommodation	5,733	74,643
	446,902	545,236
OTHER INCOME (EXPENSES)		
Interest and other income	3,168	10,180
Property investigation costs	(21,706)	-
Foreign exchange gain (loss)	81,465	(46,344)
	62,928	(36,164)
LOSS BEFORE INCOME TAXES	242,108	562,591
Recovery of future income taxes	-	(7,657)
NET LOSS	242,108	554,934
DEFICIT, BEGINNING OF PERIOD	12,159,104	11,429,764
PREMIUM PAID ON PURCHASE OF COMMON SHARES FOR CANCELLATION	-	42,062
DEFICIT, END OF PERIOD	\$ 12,401,212	\$ 12,026,760
BASIC AND DILUTED LOSS PER SHARE	\$ -	\$ 0.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in 000's)	52,902	52,460

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Statements of Cash Flows

(Expressed in US Dollars)

(Unaudited)

	Three months ended September 30,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (242,108)	\$ (554,934)
Items not involving use of cash		
Recovery of future income taxes	-	(7,657)
Accrued interest	30,246	24,325
Non-cash interest expense	60,877	51,644
Depreciation and depletion	275,003	44,549
Net change in non-cash operating working capital items (Note 4)	373,840	257,672
	497,858	(184,401)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share capital issued, net of issue costs	15,411	6,241
Common shares purchased for cancellation	-	(79,447)
Deferred financing costs	(21,125)	-
Cumulative translation adjustments	-	291
	(5,714)	(72,915)
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on mineral properties and interests	(268,963)	-
Expenditures on other capital assets	(268,068)	(9,387)
	(537,031)	(9,387)
DECREASE IN CASH	(44,887)	(266,704)
CASH, BEGINNING OF PERIOD	1,176,484	1,474,186
CASH, END OF PERIOD	\$ 1,131,598	\$ 1,207,482

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

1) BASIS OF PRESENTATION

- a) 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 for the year ended June 30, 2002.
- b) The Company has adopted the recommendations of the new CICA Handbook section 3870, *Stock-based compensation and Other Stock-based Payments*. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards made to non-employees be measured and recognized using a fair value based method. The standard encourages a fair value based method for all awards granted to employees, but only requires the use of a fair value based method for direct awards of stock, stock appreciation rights, and awards that call for settlement in cash or other assets. Awards that a company has the ability to settle in stock are recorded as equity, whereas awards that the entity is required to or has a practice of settling in cash are recorded as liabilities. The Company has adopted the intrinsic value method in accounting for stock options granted to employees and directors and the disclosure only provision with respect to the fair-value method (Note 3). In all other respects, 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	\$ 2,000,000
Deduct portion allocated to the equity instrument (the deemed discount on issue)	(705,981)
<u>Financial liability component at inception</u>	<u>1,294,019</u>
Add:	
Accretion of the deemed discount on issue	367,841
Accrued interest	194,301
<u>Balance of financial liability component, September 30, 2002</u>	<u>1,856,161</u>
<u>Deduct amount included in current liabilities</u>	<u>(1,856,161)</u>
<u>Non-current portion</u>	<u>\$ -</u>

In October 2002, the noteholder alleged that the Company was in default of its obligations under the note, and that the noteholder was entitled to accelerate payment in full of the outstanding principal and accrued and unpaid interest. At that time, the Company disagreed with this allegation. However, in the circumstances, the entire balance of the note has been reflected as a current liability at September 30, 2002.

The face value of the note plus accrued and unpaid interest to September 30, 2002 amounted to \$2,194,301.

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

3) SHARE CAPITAL

During the three months ended September 30, 2002, the Company issued a total of 58,496 Common Shares for proceeds of \$15,411.

During the quarter ended September 30, 2002, no options were granted or exercised. Common share purchase options outstanding at November 29, 2002 totaled 1,998,000 with exercise prices and expiry dates ranging from Cdn.\$1.25 to Cdn.\$0.66 and May 30, 2003 to March 12, 2007, respectively. At November 29, 2002 a total of 52,941,038 Common Shares of the Company were outstanding.

The Company accounts for its stock-based compensation plan using the intrinsic-value method. Under this method, compensation costs are not recognized in the financial statements for stock options granted to employees and directors when issued at market value.

Effective July 1, 2002, Canadian accounting standards require that the Company disclose on a pro-forma basis the impact on net income of using the fair-value method for stock options issued on or after July 1, 2002. If the fair-value method had been used, there would have been no effect on the Company's net loss and basic and diluted loss per share for the three months ended September 30, 2002 as there were no stock options granted in this period.

4) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

The net change in non-cash operating working capital items is comprised of:

	<u>2002</u>	<u>2001</u>
(Increase) decrease in:		
Accounts receivable	\$ 68,937	\$ (12,622)
Diamond inventory	219,521	(5,841)
Prepaid expenses	1,568	(1,924)
Increase in:		
Accounts payable and accrued liabilities	83,814	278,059
	<u>\$ 373,840</u>	<u>\$ 257,672</u>

5) SEGMENTED INFORMATION

The Company considers its business to consist of one reportable business segment. All of the Company's revenue for the three period ended September 30, 2002 was earned in Namibia.

6) SUBSEQUENT EVENTS

On July 1, 2002, the Company's joint venture partner, Trans Hex Group Limited ("Trans Hex") repudiated its joint venture agreement with the Company by unilaterally suspending the joint venture operations at the Company's Namibian sea concessions.

DIAMOND FIELDS INTERNATIONAL LTD.
Notes to the Consolidated Financial Statements
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6) SUBSEQUENT EVENTS *(Continued)*

On September 6, 2002, the Company instituted an action for damages in the High Court of South Africa in Cape Town against Trans hex in respect of:

- (i) the repudiation by Trans Hex of the joint venture agreement entered into between the Company and Trans Hex on March 5, 2001; and
- (ii) Trans Hex's breach of its obligation regarding the Company's option to purchase Trans Hex's mining vessel m.v. Namakwa.

The Company is claiming aggregate damages of approximately \$19.5 million pursuant to its claims against Trans Hex.

On November 15, 2002, Trans Hex filed a counterclaim in response to the Company's \$19.5 million claim. Trans Hex is claiming for payments owing under the Joint Venture Agreement of approximately \$200,000 and an alternative claim for damages of approximately \$26.8 million based on its allegation that it was induced to enter the Joint Venture Agreement by material false misrepresentations made by the Company. The Company denies that any misrepresentation was made.

The ultimate outcome of these actions is currently not determinable.

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

(Stated in US Dollars)

Overview

The net loss for the three months ended September 30, 2002 was \$242,108 or \$0.00 per share, compared with \$554,934 or \$0.01 per share for the same period in 2001. Highlights for the period are:

- A profit of \$141,865 from the Diamond Fields/Trans Hex joint venture operations off Luderitz, Namibia, compared with \$18,809 for the same period in 2001.
- General and administrative expenses of \$446,902 compared with \$545,236 for the same period in 2001.

On July 3, 2002, the Company's joint venture with Trans Hex Group Limited was terminated as a result of certain actions taken by Trans Hex. Diamond sales and operating costs recorded in the three months ended September 30, 2002 represent results from the sale of diamonds produced in the final five weeks of the joint venture.

Joint venture operations

During the quarter ended September 30, 2002, the DFI-Trans Hex Joint Venture sold 3,646 carats, of which the Company's share was 2,187 carats, at an average price of \$143 per carat. These diamonds were recovered by the m.v. Namakwa, the first vessel fully dedicated to the joint venture. In the same period of 2001, 5,257 carats (Company's share – 3,154 carats) were sold at an average price of \$122 per carat. These diamonds were recovered by a smaller, interim vessel that Trans Hex provided to the joint venture prior to the availability of the m.v. Namakwa in November 2001. Profit from operations improved from \$18,809 in the three months ended September 30, 2001 to \$141,865 in the same period in 2002 as a result of the operating efficiencies of the m.v. Namakwa compared to the smaller interim vessel.

On July 1, 2002, Trans Hex unilaterally suspended mining operations at the Company's Marshall Fork deposit without prior consultation with or notification to the Company. On July 3, 2002, Trans Hex indicated that the primary reasons for the suspension of operations and the withdrawal of the vessel were its inability to meet performance conditions stipulated in the Agreement and the apprehension of an ongoing contingent liability for payment of penalties under the Agreement. As a result, Trans Hex demanded, as a pre-condition to any resumption of mining operations and continuation of the Joint Venture, that the Company agree to amend the Agreement to remove certain of Trans Hex's obligations under it and to change the cost and revenue sharing arrangements under it in favor of Trans Hex. As a result of this action, the Company believes that Trans Hex has repudiated the Joint Venture Agreement and the Company has accepted that repudiation.

The Joint Venture has accordingly been terminated and the Company has instituted an action for damages in the High Court of South Africa in Cape Town against Trans Hex. The claim for damages arises primarily out of (i) the repudiation by Trans Hex of the Joint Venture Agreement; and (ii) Trans Hex's breach of its obligation regarding the Company's option to purchase the mining vessel m.v. Namakwa. The Company is claiming damages of approximately US\$19.5 million pursuant to its claim against Trans Hex.

On November 15, 2002, Trans Hex filed a counterclaim in response to the Company's \$19.5 million claim. Trans Hex is claiming for payments owing under the Joint Venture Agreement of approximately \$200,000 and an alternative claim for damages of approximately \$26.8 million based on its allegation that it was induced to enter the Joint Venture Agreement by material false misrepresentations made by the Company. The Company denies that any misrepresentation was made.

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

(Stated in US Dollars)

Administrative expenses

The Company incurred general and administrative expenses of \$446,902 during the three months ended September 30, 2002 compared to \$545,236 in the same period last year. Components of these expenses that differed from 2001 include salaries, travel and accommodation, legal and consulting.

Salaries decreased from \$217,691 in the three months ended September 30, 2001 to \$179,218 this quarter as a result of severance paid to a former officer of the Company in 2001. Travel and accommodation expenses have decreased significantly compared to the same period last year as a result of the Company's implementation of policies and systems to effectively communicate electronically and telephonically.

Legal fees increased in the quarter ended September 30, 2002 as compared to the same period in 2001 due to various transactions which the Company was actively pursuing this year. One of these transactions was the agreement with Gemfarm Investments (Pty) Ltd., a mining contractor, which is scheduled to commence mining the Company's marine concessions near Luderitz, Namibia on or about November 30, 2002.

Consulting fees in 2001 were comprised of fees to financial advisors assisting in fund raising activities and due diligence for the Company. In 2002, financial advisory fees were classified as deferred financing costs in the balance sheet to the extent that these fees relate to the Company's financing with Overseas Private Investment Corporation, as described under "Liquidity and Outlook" below.

Liquidity and outlook

At September 30, 2002, the Company had a working capital deficit of \$1,116,480 including cash of \$1,131,598, compared with working capital of \$1,090,394, including cash of \$1,176,484 at June 30, 2002. The working capital deficiency at September 30, 2002 is a result of recognizing the Company's note payable as a current liability.

In February 2001, the Company received proceeds from a U.S.\$2,000,000 loan supported by a promissory note payable to M.I.L. Investments S.A.R.L. ("MIL"), a company controlled by a shareholder who is now the Chairman of the Company. In October 2002, MIL alleged that the Company was in default of its obligations under the promissory note and that, as a consequence, MIL was entitled to accelerate payment in full of all outstanding principal and accrued and unpaid interest under the promissory note. At that time, the Company disagreed with this allegation. To date, MIL has not informed the Company of what steps, if any, it intends to take in furtherance of its allegation that the Company is in default of its obligations under the promissory note. As a result, the Company has recorded the entire balance of the note payable as a current liability.

The Company's existing cash resources are not sufficient to meet its current level of general and administrative expenses beyond the next few months. The Company does not anticipate any cash flows from operations until the resumption of mining operations and does not have sufficient working capital to start mining operations on its own.

The Company plans to develop and mine its known diamond resource and is currently in discussions with Overseas Private Investment Corporation ("OPIC"), a U.S. governmental agency with respect to project financing for the purchase of its own dedicated mining vessels equipped with processing plant and mining equipment. OPIC has committed to provide \$15 million of project financing for the Company's acquisition of up to two mining vessels. The commitment is subject to certain conditions, including a requirement for working capital and the execution of a financing agreement. The Company has incurred \$84,675 in costs related to the OPIC financing and has recorded these costs as deferred financing costs in its balance sheet.

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

(Stated in US Dollars)

On September 5, 2002, the Company entered into an agreement for the purchase of a vessel for \$1,225,000. This agreement is also subject to certain conditions, including financing. The company has made a deposit of \$122,500 towards the purchase of the vessel and will forego 75% of the deposit if the purchase is not completed by December 15, 2002, and the remaining 25% of the deposit if the purchase is not completed by February 15, 2003. Subject to completion of the purchase, the Company intends to convert this vessel into a diamond mining vessel at an estimated cost of \$10.3 million. Following the commencement of operations by this vessel, the Company will determine the timing and parameters of a second vessel.

In addition to the OPIC financing, the Company will need further funding to complete the acquisition of its second planned vessel. The Company expects to achieve this through external financing, either through the public or private sales of equity or debt securities of the Company, or through the offering of joint venture or other third party participation in its diamond properties.

Insofar as factors beyond the Company's control may adversely affect its access to funding or its ability to conclude financing arrangements, there can be no assurance that any additional funding will be available to the Company or, if available, that it will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of its development activities to bring its diamond projects into full production.

New Board

At the Company's Annual General Meeting held on November 21, 2002, shareholders elected a new board of directors consisting of Jean-Raymond Boule, Norman Roderic Baker, Mark Collins, Stephen Malouf and Gregg Sedun. Mr. Boule has assumed the role of Chairman and Chief Executive Officer.