



DIAMOND FIELDS INTERNATIONAL LTD.

SECOND QUARTER REPORT

DECEMBER 31, 2002

Table of Contents

Item 1. Financial Statements

Consolidated Balance Sheets at December 31, 2002 (unaudited)
and June 30, 2002

Unaudited Consolidated Statements of Operations and Deficit for
the Three Months and Six Months ended December 31, 2002 and
2001

Unaudited Consolidated Statements of Cash Flows for the Three
Months and Six Months ended December 31, 2002 and 2001

Notes to the Unaudited Consolidated Financial Statements

**Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations**

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Balance Sheets

(Expressed in US Dollars)

	December 31, 2002 (Unaudited)	June 30, 2002
ASSETS		
CURRENT		
Cash	\$ 257,528	\$ 1,176,484
Accounts receivable	337,927	115,530
Inventory	328,376	243,612
Prepaid expenses	52,263	51,932
	976,095	1,587,558
INVESTMENT	1	1
MINERAL PROPERTIES AND INTERESTS	7,994,020	8,018,028
OTHER CAPITAL ASSETS	699,114	439,970
DEFERRED FINANCING COSTS	96,027	63,550
	\$ 9,765,257	\$ 10,109,107
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 795,955	\$ 429,150
Current portion of note payable (Note 2)	1,881,586	68,014
	2,677,541	497,164
NOTE PAYABLE (Note 2)	-	1,697,024
FUTURE INCOME TAXES	1,591,423	1,597,972
	4,268,964	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	(12,995,169)	(12,159,104)
Cumulative translations adjustments	(1,004,734)	(1,004,734)
	5,496,293	6,316,947
	\$ 9,765,257	\$ 10,109,107

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Statements of Loss and Deficit

(Expressed in US Dollars)

(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2002	2001	2002	2001
DIAMOND SALES	\$ -	359,885	\$ 312,331	\$ 743,600
OPERATING COSTS				
Production costs (including depreciation and depletion)	-	87,654	150,023	409,398
Royalties, selling and marketing	-	40,535	20,442	83,697
	-	128,189	170,465	493,095
ADMINISTRATIVE EXPENSES				
Accounting and audit	39,153	5,280	62,003	12,577
Consulting	45,280	57,446	60,695	110,709
Depreciation	3,305	2,778	9,345	5,555
Interest on note payable	93,439	84,572	184,562	160,541
Investor relations	25,646	4,386	31,842	28,348
Legal	503,625	1,400	553,605	24,553
Maintenance	5,454	2,180	9,432	7,965
Office	59,157	48,694	122,218	102,211
Regulatory	17,388	4,988	20,695	12,167
Salaries	175,772	159,675	354,990	377,366
Travel and accommodation	41,929	19,212	47,662	93,855
	1,010,148	390,611	1,457,049	935,847
OTHER INCOME (EXPENSES)				
Interest and other income	2,038	4,426	5,206	14,606
Gain on settlement of claim	478,180	-	478,180	-
Forfeiture of deposit to purchase mining vessel	(91,891)	-	(91,891)	-
Property investigation costs	(11,330)	-	(33,036)	-
Foreign exchange gain (loss)	32,645	(88,866)	114,110	(135,210)
	409,642	(84,440)	472,569	(120,604)
LOSS BEFORE INCOME TAXES	600,506	243,353	842,614	805,945
Recovery of future income taxes	6,549	16,257	6,549	23,914
NET LOSS	593,958	227,096	836,065	782,031
DEFICIT, BEGINNING OF PERIOD	12,401,211	12,026,760	12,159,104	11,429,764
PREMIUM PAID ON PURCHASE OF COMMON SHARES FOR CANCELLATION	-	-	-	42,062
DEFICIT, END OF PERIOD	\$ 12,995,169	12,253,857	\$ 12,995,169	\$ 12,253,857
BASIC AND DILUTED LOSS PER SHARE	\$ 0.01	-	\$ 0.02	\$ 0.01
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in 000's)	52,941	52,442	52,912	52,454

DIAMOND FIELDS INTERNATIONAL LTD.

Consolidated Statements of Cash Flows

(Expressed in US Dollars)

(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2002	2001	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	\$ (593,958)	\$ (227,096)	(836,065)	\$ (782,031)
Items not involving use of cash				
Recovery of future income taxes	(6,549)	(16,257)	(6,549)	(23,914)
Accrued interest	30,247	30,392	60,493	54,717
Non-cash interest expense	63,192	54,180	124,069	105,824
Depreciation and depletion	27,313	54,550	33,353	99,099
Net change in non-cash operating working capital items (Note 4)	(314,528)	(562,789)	59,312	(305,117)
	(794,282)	(667,020)	(565,387)	(851,422)
CASH FLOWS FROM FINANCING ACTIVITIES				
Share capital issued, net of issue costs	-	6,732	15,411	12,973
Common shares purchased for cancellation	-	-	-	(79,447)
Note payable	(68,014)	-	(68,014)	-
Deferred financing costs	(11,352)	-	(32,477)	-
Cumulative translation adjustments	-	33,956	-	34,247
	(79,366)	40,688	(85,080)	(32,227)
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditures on other capital assets	(421)	(394)	(268,489)	(9,781)
	(421)	(394)	(268,489)	(9,781)
DECREASE IN CASH	(874,069)	(626,726)	(918,957)	(893,430)
CASH, BEGINNING OF PERIOD	1,131,597	1,207,482	1,176,484	1,474,186
CASH, END OF PERIOD	\$ 257,527	\$ 580,756	257,527	\$ 580,756

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 Canadian 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)
Financial liability component at inception	1,294,019
Add:	
Accretion of the deemed discount on issue	363,019
Accrued interest	224,548
Balance of financial liability component, December 31, 2002	1,881,586
Deduct amount included in current liabilities	(1,881,586)
Non-current portion	\$ -

In October 2002, M.I.L. Investments S.A.R.L. ("MIL"), the noteholder and a company beneficially owned by the current Chairman and Chief Executive Officer of the Company, advised that the Company was in default of its obligations under the note, and that MIL was entitled to accelerate payment in full of the outstanding principal and accrued and unpaid interest. In December 2002, the Company and MIL reached an agreement whereby MIL reinstated the note. As a result of the reinstatement, the remaining principal plus all accrued and unpaid interest will not be due until December 31, 2003, unless certain conditions occur, including a change in control of DFI or the incurrence of additional debt by DFI without the prior consent of MIL.

The face value of the note plus accrued and unpaid interest to December 31, 2002 amounted to \$2,224,548.

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

3) SHARE CAPITAL

During the three months ended December 31, 2002, the Company did not issue any Common Shares. During the six months ended December 31, 2002, the Company issued a total of 58,496 Common Shares for proceeds of \$15,411.

During the quarter ended December 31, 2002 and the six months ended December 31, 2002, no options were granted or exercised.

The following share transactions occurred subsequent to December 31, 2002:

- (a) In January 2003, 1,265,000 common share purchase options expired. Of these options, 816,666 had been vested.
- (b) On January 28, 2003, the Board of Directors granted 1,080,000 options to certain directors of the Company to purchase common shares of the Company at an exercise price of Cdn.\$0.43 per share expiring on January 28, 2008. All of these options are fully vested.
- (c) On March 3, 2003, 31,376 common shares were issued pursuant to the Company's Share Purchase Plan.

Common share purchase options outstanding at March 3, 2003 totaled 1,820,000 with exercise prices and expiry dates ranging from Cdn.\$1.25 to Cdn.\$0.43 and March 31, 2003 to January 28, 2008, respectively. At March 3, 2003 a total of 52,972,414 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 six months ended December 31, 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:

	Three months ended December 31,		Six months ended December 31,	
	<u>2002</u>	2001	<u>2002</u>	<u>2001</u>
(Increase) decrease in:				
Accounts receivable	\$ (291,335)	\$ 7,662	\$ (222,398)	\$ (4,960)
Diamond inventory	(304,285)	(74,743)	(84,764)	(80,584)
Prepaid expenses	(1,899)	1,889	(331)	(35)
Increase (decrease) in:				
Accounts payable and accrued liabilities	282,991	(497,597)	366,805	(219,538)
	<u>\$ (314,528)</u>	<u>\$ (562,789)</u>	<u>\$ 59,312</u>	<u>\$ (305,117)</u>

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

5) SEGMENTED INFORMATION

The Company considers its business to consist of one reportable business segment. All of the Company's revenue for the three and six month periods ended December 31, 2002 was earned in Namibia.

6) RELATED PARTY TRANSACTIONS

Included in accounts payable at December 31, 2002 are legal and other fees totaling \$322,444 payable to companies related to two directors of the Company, including the Chairman and Chief Executive Officer of the Company.

7) OTHER SUBSEQUENT EVENT

On January 7, 2003, Kimberley Overseas ("KO"), a wholly-owned subsidiary of the Company, received a short-term loan of \$310,000 from a company beneficially owned by the Chairman and Chief Executive Officer of the Company. The loan bears interest at an annual rate of 4% and is repayable in full, including interest, no later than June 1, 2003. The loan is secured by all of KO's accounts receivable from Diamond Fields (Namibia) (Proprietary) Limited, a wholly-owned subsidiary of KO.

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

(Stated in U.S. Dollars)

Overview

Net loss for the three months ended December 31, 2002 was \$593,958 or \$0.01 per share, compared with \$227,096 or \$0.01 per share for the same period in 2001. Highlights for the quarter are:

- General and administrative expenses of \$1,010,148 compared with \$390,611 for the same period in 2001. These expenses include legal and other fees associated with a proxy contest which occurred in November 2002.
- A gain on settlement of claims arising from the termination of the DFI-Trans Hex joint venture agreement.

Net loss for the six months ended December 31, 2002 was \$836,065 or \$0.02 per share, compared with \$782,031 or \$0.01 per share 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 six months ended December 31, 2002 represent results from the sale of diamonds produced in the final five weeks of the joint venture.

In November 2002, a proxy contest occurred in which a new board of directors was elected receiving 67% approval of the shares voted at the Company's Annual General Meeting. The new board of directors consists 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.

DFI-Trans Hex Joint venture

During the six months ended December 31, 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 September 6, 2002, the Company instituted an action for damages in the High Court of South Africa in Cape Town against Trans Hex.

In response, on November 15, 2002, Trans Hex filed a counterclaim based on its allegation that it was induced to enter the Joint Venture Agreement by material false misrepresentations made by the Company. The Company denied that any misrepresentation was made.

On December 13, 2002, the Company and Trans Hex reached an agreement to settle the claims and counterclaims against each other. As a result of the settlement, the Company recorded a gain of \$478,180.

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

(Stated in U.S. Dollars)

General and administrative expenses

The Company incurred general and administrative expenses of \$1,010,148 during the three months ended December 31, 2002 compared to \$390,611 in the same period last year. With the exception of legal fees, which increased from \$1,400 in the three months ended December 31, 2001 to \$503,265 this year, all of the general and administrative expenses did not differ materially from 2001. Legal fees increased as a result of the costs associated with the proxy contest as mentioned above, and as a result of an extensive legal review of the Company's corporate matters following the installation of the new board. The costs associated with the proxy contest are not expected to recur.

For the six months ended December 31, 2002, components of general and administrative expenses that differ from the same period in 2001 include accounting and audit, consulting, legal, salaries, and travel and accommodation.

Salaries decreased from \$377,366 in the six months ended December 31, 2001 to \$354,990 this period as a result of severance paid to the former president 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 six months ended December 31, 2002 as compared to the same period in 2001 due to the reasons described above and also 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 commenced mining the Company's marine concessions near Luderitz, Namibia on December 13, 2002.

Accounting and audit fees increased during the six months ended December 31, 2002 compared to the previous year primarily because the balance of the costs of the previous year's audit was not reflected until the third quarter. 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 December 31, 2002, the Company had a working capital deficit of \$1,701,446 including cash of \$257,528, compared with working capital of \$1,090,394, including cash of \$1,176,484 at June 30, 2002. The working capital deficiency at December 31, 2002 is a result of recognizing the Company's note payable as discussed in Note 2 to the financial statements.

Following the proxy contest, the Company's cash resources were insufficient to start mining operations on its own. To that end, on January 7, 2003, Kimberley Overseas ("KO"), a wholly-owned subsidiary of the Company, received a short-term loan of \$310,000 from a company beneficially owned by the Chairman and Chief Executive Officer of the Company. The loan bears interest at an annual rate of 4% and is repayable in full, including interest, no later than June 1, 2003. The loan is secured by all of KO's accounts receivable from Diamond Fields (Namibia) (Proprietary) Limited, a wholly-owned subsidiary of KO.

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

(Stated in U.S. Dollars)

The short-term loan enabled the Company to recommence mining at its Luderitz marine concessions utilizing a mining contractor, Gemfarm Investments (Pty) Ltd., and to generate cash flows from mining operations. The Company's existing cash resources and anticipated cash flows from contract mining operations will be sufficient to meet its current level of general and administrative expenses, including maintaining its concessions in good standing, as long as the current level of diamond production is maintained. The Company does not anticipate any cash flows from other operations and will have to seek additional funding in order to finance other activities.

The Company plans to develop and mine its known diamond resource and has been 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. The Company has incurred \$96,027 in costs related to the OPIC financing and has recorded these costs as deferred financing costs in its balance sheet.

On September 5, 2002, the Company entered into an agreement for the purchase of a vessel for \$1,225,000. The Company made a deposit of \$122,500 towards the purchase of the vessel. The Company subsequently felt that it was in its best interests not to proceed with completion of the purchase, and was successful in obtaining a refund of approximately 25% of the deposit, or \$30,609. The Company continues to review the potential acquisition of other available and suitable vessels in the open market. However, it will need further funding if it proceeds with the acquisition of any 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.