



# DIAMOND FIELDS INTERNATIONAL LTD.

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## THIRD QUARTER REPORT

**MARCH 31, 2003**

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# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Balance Sheets

(Expressed in US Dollars)

	March 31, 2003 (Unaudited)	June 30, 2002
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 607,423	\$ 1,176,484
Accounts receivable	33,366	115,530
Inventory	550,933	243,612
Prepaid expenses	66,637	51,932
	<b>1,258,359</b>	<b>1,587,558</b>
<b>INVESTMENT</b>	<b>1</b>	<b>1</b>
<b>MINERAL PROPERTIES AND INTERESTS</b>	<b>7,931,786</b>	<b>8,018,028</b>
<b>OTHER CAPITAL ASSETS</b>	<b>693,150</b>	<b>439,970</b>
<b>DEFERRED FINANCING COSTS</b>	<b>96,027</b>	<b>63,550</b>
	<b>\$ 9,979,323</b>	<b>\$ 10,109,107</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 743,350	\$ 429,150
Loan payable (Note 2)	312,854	-
Current portion of note payable (Note 3)	1,982,340	68,014
	<b>3,038,544</b>	<b>497,164</b>
NOTE PAYABLE (Note 3)	-	1,697,024
FUTURE INCOME TAXES	1,578,924	1,597,972
	<b>4,617,468</b>	<b>3,792,160</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital		
Authorized - Unlimited number of common shares without par value		
Issued and outstanding - 52,972,414		
(June 30, 2002 - 52,882,540) shares	18,797,499	18,774,804
Equity portion of note payable	705,981	705,981
Deficit	(13,136,891)	(12,159,104)
Cumulative translations adjustments	(1,004,734)	(1,004,734)
	<b>5,361,855</b>	<b>6,316,947</b>
	<b>\$ 9,979,323</b>	<b>\$ 10,109,107</b>

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

(Expressed in US Dollars)

(Unaudited)

	Three months ended March 31,		Nine months ended March 31,	
	2003	2002	2003	2002
<b>DIAMOND SALES</b>	<b>\$ 940,601</b>	1,034,447	<b>\$ 1,252,932</b>	\$ 1,778,047
<b>OPERATING COSTS</b>				
Production costs (including depreciation and depletion)	632,414	380,452	782,437	789,850
Royalties, selling and marketing	163,288	111,323	183,730	195,020
	<b>795,702</b>	491,775	<b>966,167</b>	984,870
<b>ADMINISTRATIVE EXPENSES</b>				
Accounting and audit	7,858	24,221	69,861	36,798
Consulting	15,898	40,096	76,593	150,805
Depreciation	3,305	2,777	12,650	8,332
Interest on notes payable	103,608	88,912	288,170	249,453
Investor relations	6,707	6,839	38,549	35,187
Legal, including proxy solicitation costs (Note 7)	8,947	9,410	562,552	33,963
Maintenance	5,215	4,786	14,647	12,751
Office	31,889	57,079	154,107	159,290
Regulatory	6,407	7,323	27,104	19,490
Salaries	111,862	224,365	466,852	601,731
Travel and accommodation	4,890	34,265	52,552	128,120
	<b>306,586</b>	500,073	<b>1,763,637</b>	1,435,920
<b>OTHER INCOME (EXPENSES)</b>				
Interest and other income	2,003	4,273	7,209	18,879
Gain on settlement of claim	-	-	478,180	-
Forfeiture of deposit to purchase mining vessel	-	-	(91,891)	-
Property investigation costs	-	-	(33,036)	-
Foreign exchange gain (loss)	5,464	(17,468)	119,575	(152,677)
	<b>7,467</b>	(13,195)	<b>480,037</b>	(133,798)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(154,220)</b>	29,404	<b>(996,835)</b>	(776,541)
Recovery of future income taxes	12,499	14,999	19,048	38,913
<b>NET INCOME (LOSS)</b>	<b>(141,721)</b>	44,403	<b>(977,787)</b>	(737,628)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>12,995,170</b>	12,253,857	<b>12,159,104</b>	11,429,764
<b>PREMIUM PAID ON PURCHASE OF COMMON SHARES FOR CANCELLATION</b>	-	733	-	42,795
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 13,136,891</b>	12,210,187	<b>\$ 13,136,891</b>	\$ 12,210,187
<b>BASIC AND DILUTED EARNINGS (LOSS) PER SHARE</b>	<b>\$0.00</b>	0.00	<b>\$ (0.02)</b>	\$ (0.01)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in 000's)</b>	<b>52,949</b>	52,645	<b>52,925</b>	52,525

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Cash Flows

(Expressed in US Dollars)

(Unaudited)

	Three months ended March 31,		Nine months ended March 31,	
	2003	2002	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income (loss)	\$ (141,721)	\$ 44,403	(977,787)	\$ (737,628)
Items not involving use of cash				
Recovery of future income taxes	(12,499)	(14,999)	(19,048)	(38,913)
Accrued interest	38,014	30,976	98,507	85,693
Non-cash interest expense	65,594	57,938	189,663	163,762
Depreciation and depletion	65,539	76,641	98,892	175,740
Stock-based compensation	-	20,466	-	20,466
Net change in non-cash operating working capital items (Note 5)	15,026	(54,462)	74,338	(359,579)
	<b>29,953</b>	160,963	<b>(535,435)</b>	(690,459)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Share capital issued, net of issue costs	7,284	71,457	22,695	84,430
Common shares purchased for cancellation	-	(4,874)	-	(84,321)
Loan payable	310,000	-	310,000	-
Repayment of note payable	-	-	(68,014)	-
Deferred financing costs	-	(16,317)	(32,477)	(16,317)
Cumulative translation adjustments	-	(1,577)	-	32,670
	<b>317,284</b>	48,689	<b>232,204</b>	16,462
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Expenditures on mineral properties and interests	-	(26,612)	-	(26,612)
Expenditures on other capital assets	2,658	(27,728)	(265,830)	(37,509)
	<b>2,658</b>	(54,340)	<b>(265,830)</b>	(64,121)
<b>INCREASE (DECREASE) IN CASH</b>	<b>349,895</b>	155,312	<b>(569,061)</b>	(738,118)
<b>CASH, BEGINNING OF PERIOD</b>	<b>257,528</b>	580,756	<b>1,176,484</b>	1,474,186
<b>CASH, END OF PERIOD</b>	<b>\$ 607,423</b>	\$ 736,068	<b>607,423</b>	\$ 736,068

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

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**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 4). 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) LOAN PAYABLE**

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.

**3) 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	493,501
Accrued interest	194,820
Balance of financial liability component, March 31, 2003	1,982,340
Deduct amount included in current liabilities	(1,982,340)
Non-current portion	\$ -

The principal and all accrued interest are due December 31, 2003 unless certain conditions occur, including a change in control of the Company or the incurrence of additional debt by the Company without the prior consent of MIL Investments. The face value of the note plus accrued and unpaid interest to March 31, 2003 amounted to \$2,194,820.

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

**4) SHARE CAPITAL**

During the three months ended March 31, 2003, the Company issued a total of 31,376 Common Shares for proceeds of \$7,284. During the nine months ended March 31, 2003, the Company issued a total of 89,872 Common Shares for proceeds of \$22,695. These shares were issued pursuant to the Company's Share Purchase Plan.

During the three months ended March 31, 2003, and the nine months ended March 31, 2003, options were granted to certain directors of the Company to purchase a total of 1,080,000 common shares of the Company at an exercise price of Cdn\$0.43 per share expiring January 28, 2008. During the same period, options to purchase a total of 1,308,000 common shares expired.

The following share transactions occurred subsequent to March 31, 2003:

- (a) on April 1, 2003, 28,780 common shares were issued pursuant to the Company's Share Purchase Plan; and
- (b) on May 7, 2003, options were granted to certain employees, officers and a private Company having a common director, to purchase a total of 400,000 common shares of the Company at an exercise price of Cdn\$0.31 per share expiring May 7, 2008.

Common share purchase options outstanding at May 20, 2003 totaled 2,120,000, with exercise prices and expiry dates ranging from Cdn\$.031 to Cdn\$.1.25 and May 30, 2003 to May 7, 2008, respectively. At May 30, 2003, a total of 53,001,194 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, officers 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, an additional expense of \$236,982 would have been recognized for stock-based compensation for the three and nine months ended March 31, 2003, respectively, and the basic and diluted loss per share would have been \$0.01 and \$0.02, respectively.

**5) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS**

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

	Three months ended March 31,		Nine months ended March 31,	
	2003	2002	2003	2002
(Increase) decrease in:				
Accounts receivable	\$ 304,561	\$ (39,012)	\$ 82,164	\$ (43,972)
Inventory	(222,557)	(59,210)	(307,321)	(139,794)
Prepaid expenses	(14,374)	-	(14,705)	35
Increase (decrease) in:				
Accounts payable and accrued liabilities	(52,604)	43,760	314,200	(175,848)
	<b>\$ 15,026</b>	<b>\$ (54,462)</b>	<b>\$ 74,338</b>	<b>\$ (359,579)</b>

**DIAMOND FIELDS INTERNATIONAL LTD.**  
**Notes to the Consolidated Financial Statements**  
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**(Unaudited)**

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**6) SEGMENTED INFORMATION**

The Company considers its business to consist of one reportable business segment. All of the Company's revenue for the three and nine month periods ended March 31, 2003 was earned in Namibia.

**7) RELATED PARTY TRANSACTIONS**

Included in accounts payable at March 31, 2003 are legal and other fees, including proxy solicitation costs, totaling \$322,444 payable to companies related to two directors of the Company, including the Chairman and Chief Executive Officer of the Company.

During the nine months ended March 31, 2003 the Company paid rent, office and support expenses totaling \$22,000 to a Company with a common director. The expenses relate to an agreement, on a month-to-month basis, to pay \$5,500 per month for such costs.

**8) SUBSEQUENT EVENT**

Subsequent to period end the Company hired a new Chief Financial Officer ("CFO"). As a result of the circumstances leading up to the prior CFO's departure, there is a dispute about what, if any, severance obligations exist. The Company intends to vigorously defend any claim for severance made by the prior CFO.

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

(Stated in U.S. Dollars)

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## Overview

Net loss for the three months ended March 31, 2003 was \$141,721 or \$0.00 per share, compared with income of \$44,403 or \$0.00 per share for the same period in 2002.

Highlights for the quarter are:

- The Company's operations yielded over 8,700 carats. The production resulted in an operating profit of \$144,899. Three days after the quarter, on April 3<sup>rd</sup>, 2003, the Company completed the sale of 4,333 carats for total proceeds of \$639,812.
- The Board of Directors and management have succeeded in reducing general and administrative expenses as they decreased by \$193,487 compared to the same period in 2002.

During the three months ended March 31, 2003 the Company completed two diamond sales generating \$940,601 in revenue. A total of 6,747 carats were sold at an average price of \$139.41 per carat. These diamonds were recovered through contract mining operations with Gemfarm Investments (Pty) Ltd. ("Gemfarm"), initiated in late November 2002. The operations have primarily utilized the m.v. Anya, while the m.v. Lady S operated for a 15-day trial mining period during the quarter. The Anya has operated almost entirely in the western leg of the Marshall Fork deposit and operational results have exceeded grades estimated by the feasibility report prepared by Agra Simons. Recovered grades have been excellent at 2.45 carats per square meter, while Agra Simons had estimated the zone to contain 1.01 carats per square meter. Given the superior performance of the Anya, it is likely the Company will not re-deploy the Lady S in the Marshall Fork area unless and until her contractual performance elsewhere justifies a further trial. The Company is pleased with the results of the Anya considering its availability was lower than expected during the quarter. It is anticipated that the recent modifications to the Anya will improve its availability and mining efficiency during future operations.

Net loss for the nine months ended March 31, 2003 was \$977,787 or \$0.02 per share, compared with \$737,628 or \$0.01 per share for the same period in 2002.

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. During the first quarter of the 2003 fiscal year, the Company sold diamonds, produced in the final five weeks of the joint venture, for proceeds of approximately \$312,000.

In November 2002, a proxy contest occurred in which a new board of directors was elected after receiving a significant majority 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. Subsequent to March 31, 2003, and after assisting in the transition to the new board and management, Mr. Malouf resigned from the Company's board of directors.

## DFI-Trans Hex Joint Venture

During the first three months of fiscal 2003, 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 fiscal 2002, 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.

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

**(Stated in U.S. Dollars)**

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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.

### **General and administrative expenses**

The Company incurred general and administrative expenses of \$306,586 during the three months ended March 31, 2003 compared to \$500,073 in the same period last year. The reduction in general and administrative expense was due to lower office, salary and consulting expenses offset partially by higher interest expense. In December 2002 the Company moved its Vancouver office, resulting in lower rent and overhead expenses. Salary expense fell from the previous quarter due to expenses associated with the exercise of stock options being incurred in the previous quarter, and also because the Company's current CEO, Jean-Raymond Boule has assumed the position without a salary, in order to demonstrate his commitment to the Company. All other general and administrative expenses did not differ materially from 2002.

For the nine months ended March 31, 2003, components of general and administrative expenses that differ from the same period in 2002 include accounting and audit, consulting, legal, salaries, and travel and accommodation.

Salaries decreased by \$134,879 in the nine months ended March 31, 2003 to \$466,852 this period as a result of severance paid to the former president of the Company in 2002, and due to reasons described above. 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 nine months ended March 31, 2003 as compared to the same period in 2002 as a result of the proxy contest described above and also due to various transactions which the Company was actively pursuing this year. One such transaction was the agreement with Gemfarm Investments (Pty) Ltd., a mining contractor that commenced mining the Company's marine concessions near Luderitz, Namibia in late November 2002.

Accounting and audit fees increased during the nine months ended March 31, 2003 compared to the previous year primarily as a result of the Company changing its reporting currency to the US dollar, and also as a result of timing differences in the accrual of the expenses. Consulting fees in 2002 were comprised of fees to financial advisors assisting in fund raising activities and due diligence for the Company. In 2003, 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.

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

(Stated in U.S. Dollars)

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### Liquidity and outlook

At March 31, 2003, the Company had a working capital deficit of \$1,780,185, including cash of \$607,423, compared with working capital of \$1,090,394, including cash of \$1,176,484 at June 30, 2002. The working capital deficiency at March 31, 2003 is primarily a result of the Company's note payable, as discussed in Note 3 to the financial statements, falling due on December 31, 2003.

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, by June 1, 2003. The Company is currently in discussions to have the term of the loan extended. The loan is secured by all of KO's accounts receivable from Diamond Fields (Namibia) (Proprietary) Limited, a wholly-owned subsidiary of KO.

The short-term loan enabled the Company to successfully recommence mining at its Luderitz marine concessions utilizing a mining contractor, Gemfarm, 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.

Subsequent to March 31, 2003 the Company was able to extend its contract mining agreement with Gemfarm. The m.v. Anya will operate for an additional six consecutive thirty-day mining periods. The program has resulted in profitable operations during the past four months. Diamond production and profitability are expected to improve in the future as the m.v. Anya is undergoing repair, maintenance, and improvement and upgrade work in Cape Town.

The Company plans to develop and mine its known diamond resources 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 proposed 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's new management assessed the acquisition and 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.