

# DIAMOND FIELDS

INTERNATIONAL LTD.



FIRST QUARTER

SEPTEMBER 30, 2003

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

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(Expressed in US dollars except where otherwise indicated)

## OVERVIEW

Diamond Fields International Ltd. (the "Company" or "Diamond Fields") is a Canadian public company listed on the Toronto Stock Exchange. The Company is active in diamond mining and diamond and nickel exploration.

Diamond mining on the Namibia Marine Diamond Project resumed in September 2003 and results to date continue to exceed the feasibility study estimates for the area. During the three months ended September 30, 2003, the Company sold 563 carats of diamond inventory recovered during the prior year from its marine concessions.

For the three-month period ended September 30, 2003, the Company's operations, including exploration and development, as well as general and administration costs, were financed from cash at hand at the beginning of the period. Based on production activity subsequent to the three months ended September 30, 2003, and the private placement financing announced on October 21, 2003 the Company's existing cash resources and anticipated cash flows are sufficient to meet its current level of operations, including maintaining its concessions in good standing.

On July 31, 2003, the Company expanded its diamond exploration activities and broadened the scope of its operations to include nickel exploration. The expansion was accomplished when Diamond Fields agreed to acquire exploration properties in Madagascar (nickel and diamonds), Greenland (nickel) and Sierra Leone (diamonds).

In October of 2003, the Company announced non-brokered private placements totalling Cdn\$8,100,000 with the plan to issue 6,600,000 units at a price of Cdn\$0.60 per unit for aggregate proceeds of Cdn\$3,960,000 as well as issuing 6,900,000 subscription receipts convertible into units on a one for one basis at a price of Cdn\$0.60 per subscription receipt for aggregate proceeds of a further Cdn\$4,140,000. The Company closed these financings on November 28, 2003, however the subscription receipts private placement is subject to receipt of shareholder approval, which is being sought at this year's Annual General Meeting scheduled for December 17, 2003.

## FORWARD-LOOKING STATEMENTS

Certain statements contained herein are forward-looking, and are based on the opinions and estimates of management, or on opinions and estimates provided and accepted by management. These opinions and estimates include those that relate to geological, mining and commodity prices and marketing parameters used by management.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ, possibly significantly. Readers are therefore cautioned not to place undue reliance on any forward-looking statements.

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

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(Expressed in US dollars except where otherwise indicated)

## **RESULTS OF OPERATIONS**

All of the Company's revenue for the three-month period ended September 30, 2003 came from the sale of diamonds held as inventory and recovered during the prior year. A total of 563 carats were sold at an average price of approximately \$158 per carat generating revenue of \$89,137, down from \$312,331 for the same period in 2002. Production, royalty and selling expenses associated with the sale of inventory totaled \$81,421, whereas, these operating costs for the same period in 2002 were \$170,465. The Company generated an operating margin of \$7,716 for the current period ended September 30, 2003 compared with \$141,866 for the same period in 2002.

Disruptions in operations during the three-month period ended September 30, 2003 resulted in lower diamond sales revenue by \$223,194 from the same period in 2002. The contract mining vessel mv Anya was not active until the last day of the quarter as the sale of the vessel in April 2003 required a change in flag state and classification society. This resulted in extensive engineering works and bureaucratic delays, which prevented the vessel from returning to operation in the Marshall Fork concessions until September 2003.

## **FIRST QUARTER FINANCIAL OVERVIEW**

Net loss for the three months ended September 30, 2003 was \$316,377 or \$0.01 per share, compared with a net loss of \$242,108 or \$0.00 per share for the same period in 2002. The current period loss was the result of disruptions in operations.

The Company incurred general and administrative expenses of \$466,984 during the three months ended September 30, 2003 compared to \$446,901 for the three months ended September 30, 2002. Maintenance expense increased to \$18,961 for the current period compared with \$3,978 for the same period in 2002 due to increases in security and utilities costs. However, lower rent and office overhead expenses from relocating the Vancouver office continue to offset other general and administrative increases as office expense decreased to \$45,857 for the three months ended September 30, 2003 from \$63,061 for the same period in 2002. Salaries and benefits for the period increased to \$213,951 versus \$179,218 for the same period in 2002, due to increased staffing. Travel expenses of \$12,242 for the current period increased from \$5,733 in the three months ended September 30, 2002 due to the Company's participation in a trade show in September 2003. These expenses were offset by a foreign currency gain for the period of \$141,412, compared with \$81,465 for the same period in 2002, which occurred as a result of other currencies the company operates in appreciating against the US dollar.

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

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(Expressed in US dollars except where otherwise indicated)

## **LIQUIDITY AND FINANCIAL CONDITION**

At September 30, 2003, the Company had a working capital deficit of \$2,815,693 including cash of \$200,764, compared with a working capital deficit of \$2,396,901, including cash of \$564,402, at June 30, 2003. The working capital deficiency at September 30, 2003 is primarily a result of the Company's note payable, as discussed in Note 4 to the financial statements, falling due on December 31, 2003.

## **OUTLOOK**

The Company's new management has begun to expand the scope of the Company's operations. On July 31, 2003, the Company announced it had entered into an agreement to acquire interests in several nickel and diamond exploration properties in Madagascar (diamonds and nickel), Sierra Leone (diamonds), and Greenland (nickel).

Proceeds from the private placements announced October 21, 2003 will be used to fund continued development of Diamond Fields' Namibian marine diamond concession, as well as exploration activities in Greenland, Sierra Leone, and Madagascar, and for general working capital purposes.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Expressed in US dollars except where otherwise indicated)

	September 30, 2003 (Unaudited)	June 30, 2003
<b>ASSETS</b>		
CURRENT		
Cash	\$ 200,764	\$ 564,402
Accounts receivable	122,828	10,527
Inventory	20,603	94,528
Prepaid expenses	17,703	12,309
	361,898	681,766
INVESTMENTS	1	1
MINERAL PROPERTIES AND INTERESTS (Note 2)	8,119,590	7,906,925
OTHER CAPITAL ASSETS	426,770	433,256
	\$ 8,908,259	\$ 9,021,948
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 660,628	\$ 659,515
Loan payable (Note 3)	319,071	315,945
Note payable (Note 4)	2,197,892	2,103,207
	3,177,591	3,078,667
FUTURE INCOME TAXES	1,567,017	1,567,017
	4,744,608	4,645,684
CONTINGENCY (Note 9)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 5)		
Authorized - Unlimited number of common shares without par value		
Issued and outstanding - 53,367,752		
(June 30, 2003 - 53,037,064) shares		
	18,921,718	18,817,954
Equity portion of note payable	705,981	705,981
Deficit	(14,459,314)	(14,142,937)
Cumulative translations adjustments	(1,004,734)	(1,004,734)
	4,163,651	4,376,264
	\$ 8,908,259	\$ 9,021,948

APPROVED BY THE BOARD:

"Gregg Sedun"  
Director

"Earl Young"  
Director

See accompanying Notes to the Consolidated Financial Statements

DIAMOND FIELDS INTERNATIONAL LTD.

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Expressed in US dollars except where otherwise indicated)

(Unaudited)

	Three months ended September 30,	
	2003	2002
<b>DIAMOND SALES</b>	<b>\$ 89,137</b>	<b>\$ 312,331</b>
<b>OPERATING COSTS</b>		
Production costs (including depreciation and depletion)	73,925	150,023
Royalties, selling and marketing	7,496	20,442
	<b>81,421</b>	<b>170,465</b>
<b>ADMINISTRATIVE EXPENSES</b>		
Accounting and audit	16,255	22,850
Consulting	11,114	15,415
Depreciation	6,485	6,040
Interest on loan and note payable	97,810	91,123
Investor relations	7,623	6,196
Legal	36,364	49,980
Maintenance	18,961	3,978
Office	45,857	63,061
Regulatory	322	3,307
Salaries and benefits	213,951	179,218
Travel and accommodation	12,242	5,733
	<b>466,984</b>	<b>446,901</b>
<b>OTHER INCOME (EXPENSES)</b>		
Interest and other income	1,479	3,168
Property investigation costs	-	(21,706)
Foreign exchange gain (loss)	141,412	81,465
	<b>142,891</b>	<b>62,927</b>
<b>NET LOSS</b>	<b>316,377</b>	<b>242,108</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>14,142,937</b>	<b>12,159,104</b>
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 14,459,314</b>	<b>\$ 12,401,212</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$0.01</b>	<b>\$0.00</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in 000's)</b>	<b>53,050</b>	<b>52,941</b>

See accompanying Notes to the Consolidated Financial Statements

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in US dollars except where otherwise indicated)

(Unaudited)

	Three months ended September 30,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (316,377)	\$ (242,108)
Items not involving use of cash		
Accrued interest	35,834	30,246
Non-cash interest expense	61,976	60,877
Depreciation and depletion	6,485	275,003
Net change in non-cash operating working capital items (Note 6)	(42,656)	373,840
	<b>(254,738)</b>	<b>497,858</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share capital issued, net of issue costs	103,764	15,411
Deferred financing costs	-	(21,125)
	<b>103,764</b>	<b>(5,714)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures on mineral properties and interests	(212,664)	(268,963)
Expenditures on other capital assets	-	(268,068)
	<b>(212,664)</b>	<b>(537,031)</b>
<b>DECREASE IN CASH</b>	<b>(363,638)</b>	<b>(44,886)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>564,402</b>	<b>1,176,484</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 200,764</b>	<b>\$ 1,131,598</b>

See accompanying Notes to the Consolidated Financial Statements

# CONSOLIDATED FINANCIAL STATEMENTS

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## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Three months ended September 30, 2003

(Expressed in US dollars except where otherwise indicated) (Unaudited)

### 1) BASIS OF PRESENTATION

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, 2003.

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

### 2) MINERAL PROPERTIES AND INTERESTS

Details of the acquisition of assets are described in Note 16(a) to the Company's most recent annual financial statements.

On July 31, 2003, the Company entered into an agreement, which is subject to certain conditions, with a major shareholder of the Company and a company controlled by him (collectively the "Vendors"), whereby the Company will acquire all of the Vendors' interest in certain diamond exploration projects located in Madagascar and Sierra Leone, as well as a nickel exploration project located in Greenland.

The Company and the Vendors have also agreed that all interests and goodwill of the Vendors in the countries of Angola and the Democratic Republic of the Congo (the "Congo") will be transferred to the Company. The Vendors currently do not have any ongoing exploration projects in Angola or the Congo.

The closing of this transaction is subject to a number of conditions including final approval of the Boards of Directors of the Company and Gondwana (Investments) S.A., and the approval of the Toronto Stock Exchange, as well as completion of due diligence examinations concerning the properties to the satisfaction of the Company.

Costs of \$212,664 related to the acquisition of assets and incurred during the three month period ended September 30, 2003 have been capitalized.

### 3) LOAN PAYABLE

Details of the loan payable are described in Note 7 to the Company's most recent annual financial statements.

Kimberley Overseas ("KO"), a wholly owned subsidiary of the Company, has a short-term loan of \$310,000 from a company controlled by a major shareholder of the Company. The balance outstanding at September 30, 2003 includes accrued interest of \$9,071.

# CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Three months ended September 30, 2003

(Expressed in US dollars except where otherwise indicated) (Unaudited)

### 4) 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	643,991
Accrued interest	259,882
Balance of financial liability component, September 30, 2003	2,197,892
Deduct amount included in current liabilities	(2,197,892)
Non-current portion	\$ -

The principal and all accrued interest are due on 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. The face value of the note plus accrued and unpaid interest to September 30, 2003 amounted to \$2,259,882.

### 5) SHARE CAPITAL

During the three months ended September 30, 2003, the Company issued a total of 330,688 common shares for proceeds of \$103,764. These shares were issued pursuant to the Company's Share Purchase Plan and from the exercise of stock options.

During the three months ended September 30, 2003, 1,095,000 options were granted to certain employees to purchase common shares of the Company at an exercise price of Cdn\$0.70 per share and expire September 22, 2008.

In addition to the private placements discussed in Note 10, the following share transactions occurred subsequent to September 30, 2003:

- (a) On October 3, 2003, 50,000 options were granted to a director to purchase common shares of the Company at an exercise price of Cdn\$0.70 per share and expire October 3, 2008.
- (b) On October 20, 2003, 150,000 stock options were exercised at a price of Cdn\$0.31 per share.
- (c) On October 23, 2003, 200,000 options were granted to purchase common shares of the Company at an exercise price of Cdn\$0.80 per share and expire October 23, 2008.

# CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Three months ended September 30, 2003

(Expressed in US dollars except where otherwise indicated) (Unaudited)

### 5) SHARE CAPITAL (Continued)

(d) On November 27, 2003, 270,000 stock options were exercised at a price of Cdn\$0.43 per share. As a result of the option-holder exercising their share appreciation rights at a market price of \$0.95 in accordance with the Company's Equity Plan policy, 147,790 common shares were issued.

Common share purchase options outstanding at November 28, 2003 totalled 4,640,000 with exercise prices and expiry dates ranging from Cdn\$0.31 to Cdn\$.90 per share and April 10, 2004 to October 3, 2008, respectively. At November 28, 2003, a total of 60,265,542 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. If the fair-value method had been used, an additional expense of \$195,847 would have been recognized for stock-based compensation for the three months ended September 30, 2003, and the basic and diluted loss per share would have been \$0.01.

### 6) NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

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

	September 30,	
	2003	2002
(Increase) decrease in:		
Accounts receivable	\$ (112,301)	\$ 68,937
Inventory	73,925	219,521
Prepaid expenses	(5,394)	1,568
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,114	83,814
	<u>\$ (42,656)</u>	<u>\$ 373,840</u>

### 7) SEGMENTED INFORMATION

The Company considers its business to consist of one reportable business segment. All of the Company's revenue for the three-month period ended September 30, 2003 and 2002 was earned in Namibia.

### 8) RELATED PARTY TRANSACTIONS

Included in accounts receivable at September 30, 2003 is revenue totalling \$89,137 (September 30, 2002 - \$Nil) from the one time sale of diamond inventory to a company controlled by a major shareholder of the Company.

DIAMOND FIELDS INTERNATIONAL LTD.

# CONSOLIDATED FINANCIAL STATEMENTS

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## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Three months ended September 30, 2003

(Expressed in US dollars except where otherwise indicated) (Unaudited)

### 8) RELATED PARTY TRANSACTIONS (Continued)

Included in accounts payable at September 30, 2003 are legal and other fees, including proxy solicitation costs, totalling \$306,279 (June 2003 - \$306,279) payable to a company controlled by a major shareholder of the Company.

During the three months ended September 30, 2003 the Company paid rent, office and support expenses totalling \$16,500 (September 30, 2002 - \$Nil) to a company with a common officer and director. The expenses relate to an agreement to pay \$5,500 per month for such costs. The agreement can be cancelled with three months notice.

### 9) CONTINGENCY

During the prior year, the Company hired a new Chief Financial Officer ("CFO"). As a result of the circumstances leading up to the departure of the former CFO, there is a dispute about what, if any, severance obligations exist. The former CFO has filed a claim against the Company for unpaid severance pay of \$200,000 plus pre-judgment interest and legal costs. The Company made an accrual in the prior year financial statements of \$60,000 for this claim. However, the Company intends to vigorously defend the claim for severance made by the prior CFO.

Any amount ultimately assessed against the Company in excess of the amount accrued, if any, will be charged to operations in the year such a determination is made.

### 10) SUBSEQUENT EVENT

#### *Private placements*

On October 21, 2003, Diamond Fields announced that it had negotiated non-brokered private placements totalling Cdn\$8,100,000 by the issuance of 6,600,000 Units at a price of Cdn\$0.60 per Unit for aggregate proceeds of Cdn\$3,960,000 (the "Unit Private Placement"), and 6,900,000 Subscription Receipts convertible into Units on a one-for-one basis, at a price of Cdn\$0.60 per Subscription Receipt for aggregate proceeds of Cdn\$4,140,000 (the "SR Private Placement"). The Company closed these private placements on November 28, 2003, however the SR Private Placement is subject to receipt of shareholder approval, which is being sought at this year's Annual General Meeting scheduled for December 17, 2003.

Each Unit will consist of one common share of the Diamond Fields and one non-transferable share purchase warrant ("Warrant"), each Warrant entitling the holder to purchase one additional common share for a period of three years from closing at a price of Cdn.\$1.00 per share. However, the Warrants must be exercised after notice by Diamond Fields, should the weighted average closing price of Diamond Fields' common shares equal or exceed Cdn.\$1.30 per share for a period of 20 consecutive days at any time between six months and thirty-five months after closing of the Unit Private Placement. Otherwise, the Warrants will expire.

# CONSOLIDATED FINANCIAL STATEMENTS

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## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Three months ended September 30, 2003

(Expressed in US dollars except where otherwise indicated) (Unaudited)

### 10) SUBSEQUENT EVENT (Continued)

Diamond Fields has agreed to pay a fee of 6% of the funds raised by the finders for assisting in the placements, as well as compensation warrants exercisable into common shares of Diamond Fields at a price of Cdn\$0.74 per common share.