

# DIAMOND FIELDS

INTERNATIONAL LTD.



SECOND QUARTER

DECEMBER 31, 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 active in diamond mining and diamond and nickel exploration.

During the six-month period ended December 31, 2003, Diamond Fields expanded diamond exploration activities, broadened the Company's scope to include nickel exploration, completed non-brokered private placements totaling C\$8,100,000 and resumed diamond production on its Luderitz sea diamond concession. Proceeds from the financing and cash flow from Luderitz will allow the Company to expand its diamond and nickel exploration activities.

Diamond mining on the Namibia Marine Diamond Project resumed in September 2003 and diamond grades continue to exceed the feasibility study estimates for the area. During the six months ended December 31, 2003, the Company produced 8,354 carats from its Luderitz sea diamond concession. Diamond sales during the period amounted to 5,728 carats while a further 3,144 carats were sold subsequent to December 31, 2003.

On July 31, 2003, the Company contracted to acquire exploration properties in Madagascar (nickel and diamonds), Greenland (nickel) and Sierra Leone (diamonds).

In November 2003, Diamond Fields negotiated the exclusive right to acquire a 100% interest in the Valozoro lateritic nickel deposit located in Madagascar, a deposit with a historically calculated resource of 3.7 million tonnes grading 1.75% nickel for 65,000 tonnes contained nickel. The estimates were reported by UGINE who, during 1956 and 1957, conducted extensive prospecting. These are historical resource estimates which do not comply with National Instrument 43-101 standards of disclosure. Diamond Fields' exploration plans include a continuation of the sampling to build a more accurate and complete picture of nickel grade and tonnage distribution in the deposit, as well as prospecting in the vicinity for additional mineralization. Diamond Fields plans for this deposit include assessment of the costs to mine and ship concentrate from the site to in-country mills or offshore processors.

On November 28, 2003, the Company closed non-brokered private placements totaling Cdn\$8,100,000 with the issuance of 6,600,000 units at a price of Cdn\$0.60 per unit for aggregate proceeds of Cdn\$3,960,000 and the issuance of 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. Each Unit consists 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 until November 28, 2006 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.

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

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(Expressed in US dollars except where otherwise indicated)

## **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.

## **RESULTS OF OPERATIONS**

All revenue for the six-month period ended December 31, 2003 resulted from the sale of diamonds held in inventory or recovered during operations. A total of 5,728 carats were sold at an average price of approximately \$143.02 per carat generating net revenue of \$789,930, up from 2,187 carats and net revenue of \$312,331 for the same period in the 2003 fiscal year. Production, royalty and selling expenses associated with the sale of inventory totaled \$500,539 for the six-month period in fiscal 2004, whereas these operating costs for the same period in fiscal 2003 were \$170,465. The Company generated an operating margin of \$289,391 for the six-month period ended December 31, 2003 compared with \$141,866 for the same period in fiscal 2003.

Diamond sales revenue improved over the previous year as result of increased production activity. During the same period last year, the Company's revenue was generated by a sale of inventory produced in the previous year, as production did not commence until the last month of the period. The contract mining vessel mv Anya operated for three months during the current six-month period as it returned to operations at the end of September following a change in flag state and classification society, and having undergone extensive engineering work.

## **SECOND QUARTER FINANCIAL OVERVIEW**

Net loss for the three months ended December 31, 2003 was \$384,641 or \$0.01 per share, compared with a net loss of \$593,957 or \$0.01 per share for the same period in 2002. Net loss for the six month periods ended December 31, 2003 and 2002 were \$701,018 and \$836,065, respectively. The losses decreased due to an increase in operating revenue and a reduction in legal fees, partially offset by an increase in salary expense and the recognition of stock compensation expenses resulting from the exercise of stock options.

The Company incurred general and administrative expenses of \$1,179,160 during the six months ended December 31, 2003 compared to \$1,457,059 for the six months ended December 31, 2002. Legal expense fell from \$553,605 to \$37,472, as fees in the previous period were abnormally high due to the result of the proxy battle that occurred.

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

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(Expressed in US dollars except where otherwise indicated)

Investor relations expense increased as the Company participated in a number of industry trade shows, designed a new website and marketing materials, and also retained an investor relations consultant. Accounting and audit expense decreased from \$62,003 in the same fiscal period during 2003 to \$25,437 in the fiscal 2004 period as a result of timing differences in the recognition of the expense.

Office expense decreased from \$122,218 in the previous period to \$102,707 due to lower rent and office overhead expenses as the Company moved locations from that of the previous year. Salaries and benefits for the period increased to \$403,789 versus \$354,990 for the same period in 2002, due to increased staffing necessary as a result of the new property acquisitions, and also as a result of the Canadian dollar appreciating against the U.S. dollar as several employees are paid in Canadian dollars.

Travel expenses of \$102,485 for the current period increased from \$47,662 in the six months ended December 31, 2002 as a result of increased travel due to increased participation in trade shows and the acquisition of assets in Sierra Leone, Greenland and Madagascar. Stock based compensation expense increased from nil in the 2002 period to \$107,397 in 2003 with several individuals exercising stock options during the period as compared to no options exercised in the prior year period. The administrative expenses were offset by a foreign currency gain for the period of \$170,438, compared with \$114,110 for the same period in 2002, which occurred due to appreciation of the Canadian dollar, Namibian dollar, and the South African Rand against the US dollar.

## **LIQUIDITY AND FINANCIAL CONDITION**

At December 31, 2003, the Company had working capital of \$2,646,505, including cash of \$5,117,232, compared with a working capital deficit of \$2,396,901, including cash of \$564,402, at June 30, 2003. The change in working capital at December 31, 2003 is primarily a result of the Company's private placements, as discussed in Note 5 to the financial statements, and operational revenues, partially offset by administrative expenses.

## **OUTLOOK**

In January 2004, the Company announced that because of the increase in strength of the South African Rand, operations at the marine diamond deposit were temporarily suspended. The decision taken in conjunction with Lazig (Pty) Limited and Gemfarm (Pty) Limited, the owner and operator of the marine mining vessel mv Anya, became necessary because the partners operating costs were in Rand while diamond revenue and the daily hire rate paid to the contractor are denominated in US dollars. Over the course of the past year, the Rand has appreciated significantly relative to the US dollar, impairing the contractor's margins.

Subsequent to this event, on February 19, 2004, Diamond Fields announced it had entered into a joint venture agreement with Samcor Mining Services (Pty) Ltd. to carry out diamond mining operations on a 50/50 basis on Diamond Fields' marine mining license ML111 located near Luderitz, Namibia. Although diamond production will be split

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

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(Expressed in US dollars except where otherwise indicated)

equally between the parties, operational costs to Diamond Fields will be capped to the fixed US dollar amount of US\$400,000 per month. Diamond Fields' commitment to fund its full share of operating costs is subject to certain assurances by Samicor as to equipment availability. Diamond mining operations will utilize Samicor's chartered vessel mv Kovambo, which is equipped with the 3rd Generation Seabed Crawler based on the Namssol Crawler ("the Seabed Crawler") mining system and a diamond processing plant. The Seabed Crawler, built at a cost of US\$30 million, operated on Namco's cross border extensions to the Marshall Fork deposits during parts of 1998 through 2000 producing 200,000 carats of diamonds in 1999. The joint venture provides Diamond Fields with the highest level of production capacity in the Company's history.

The mv Kovambo is berthed in Cape Town harbour undergoing refurbishment and maintenance work. Diamond mining operations are scheduled to recommence on the Luderitz Concession by the end of May 2004. The term of the joint venture agreement is for an initial six-month period, with Diamond Fields having the sole option to renew the joint venture on the same terms for a further six-month period. The agreement between DFI and Samicor is subject to the parties agreeing to an acceptable mine plan within a 45-day period.

In January 2004, Diamond Fields announced the results of the 2003 fieldwork conducted on its nickel project located on Ammassalik Island off the southeast coast of Greenland. Mapping and sampling extended the strike length of the most prospective horizon to over 40 kilometres in four structurally repeated zones. Fieldwork has recovered locally derived boulders with anomalous (0.2%-1%) nickel emanating from three of the four horizons. Diamond Fields' geologists are encouraged by these results, and the Company is considering an airborne geophysical survey to identify areas of massive sulphide concentration.

On February 24, 2004, Diamond Fields appointed Mr. Kenneth E. Hecker to the positions of Chief Operating Officer (COO) and Chief Financial Officer (CFO), effective immediately. Mr. Hecker was most recently the Vice-President, Finance for Doe Run Peru, where he oversaw all financial functions, plus information systems and business development activities. Previously, Mr. Hecker spent 12 years at Kennecott Corporation (a Rio Tinto PLC subsidiary), including seven years as Director, Planning and Business Development for Kennecott Exploration Company.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(Expressed in US Dollars except where otherwise indicated)

	December 31, 2003 (Unaudited)	June 30, 2003
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 5,117,232	\$ 564,402
Accounts receivable	53,982	10,527
Inventory	237,189	94,528
Prepaid expenses	40,934	12,309
	5,449,337	681,766
<b>INVESTMENT</b>		
	1	1
<b>MINERAL PROPERTIES AND INTERESTS (Note 2)</b>		
	8,320,233	7,906,925
<b>OTHER CAPITAL ASSETS</b>		
	438,021	433,256
	\$ 14,207,592	\$ 9,021,948

## LIABILITIES

<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 509,772	\$ 659,515
Loan Payable (Note 3)	-	315,945
Note payable (Note 4)	2,293,060	2,103,207
	2,802,832	3,078,667
<b>FUTURE INCOME TAXES</b>		
	1,554,520	1,567,017
	4,357,352	4,645,684

## CONTINGENCY (Note 9)

## SHAREHOLDERS' EQUITY

Share capital (Note 5)

Authorized - Unlimited number of common shares without par value

Issued and outstanding - 67,202,526

(June 30, 2003 - 53,037,064) shares

(June 30, 2003 - 53,037,064) shares	24,992,948	18,817,954
Equity portion of note payable	705,981	705,981
Deficit	(14,843,955)	(14,142,937)
Cumulative translations adjustments	(1,004,734)	(1,004,734)
	9,850,240	4,376,264
	\$ 14,207,592	\$ 9,021,948

APPROVED BY THE BOARD:

"Gregg Sedun"

Director

"Rod Baker"

Director

See accompanying Notes to the Consolidated Financial Statements

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(Expressed in US Dollars except where otherwise indicated)

(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2003	2002	2003	2002
<b>DIAMOND SALES</b>	<b>\$ 700,793</b>	-	<b>\$ 789,930</b>	\$ 312,331
<b>OPERATING COSTS</b>				
Production costs (including depreciation and depletion)	334,984	-	408,909	150,023
Royalties, selling and marketing	84,134	-	91,630	20,442
	<b>419,118</b>	-	<b>500,539</b>	170,465
<b>ADMINISTRATIVE EXPENSES</b>				
Accounting and audit	9,182	39,153	25,437	62,003
Consulting	36,151	45,280	47,265	60,695
Depreciation	6,486	3,305	12,971	9,345
Interest on note payable	92,085	93,439	189,895	184,562
Investor relations	83,361	25,646	90,984	31,842
Legal	1,108	503,625	37,472	553,605
Maintenance and security	9,707	5,454	28,668	9,432
Office	56,850	59,157	102,707	122,218
Regulatory	29,768	17,388	30,090	20,695
Salaries	189,838	175,772	403,789	354,990
Stock based compensation	107,397	-	107,397	-
Travel and accommodation	90,243	41,929	102,485	47,662
	<b>712,176</b>	1,010,148	<b>1,179,160</b>	1,457,049
<b>OTHER INCOME (EXPENSES)</b>				
Interest and other income	4,337	2,038	5,816	5,206
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	29,026	32,645	170,438	114,110
	<b>33,363</b>	409,642	<b>176,254</b>	472,569
<b>LOSS BEFORE INCOME TAXES</b>	<b>397,138</b>	600,506	<b>713,515</b>	842,614
Recovery of future income taxes	12,497	6,549	12,497	6,549
<b>NET LOSS</b>	<b>384,641</b>	593,957	<b>701,018</b>	836,065
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>14,459,314</b>	12,401,211	<b>14,142,937</b>	12,159,104
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 14,843,955</b>	12,995,169	<b>\$ 14,843,955</b>	\$ 12,995,169
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$ 0.01</b>	\$ 0.01	<b>\$ 0.01</b>	\$ 0.02
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in 000's)</b>	<b>58,382</b>	52,941	<b>55,732</b>	# 52,912

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 December 31,		Six months ended December 31,	
	2003	2002	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss	\$ (384,641)	\$ (593,958)	\$ (701,018)	\$ (836,065)
Items not involving use of cash				
Recovery of future income taxes	(12,497)	(6,549)	(12,497)	(6,549)
Accrued interest	30,068	30,247	65,902	60,493
Non-cash interest expense	61,975	63,192	123,951	124,069
Depreciation and depletion	68,712	27,313	75,197	33,353
Net change in non-cash operating working capital items (Note 6)	(321,828)	(314,528)	(364,484)	59,312
	<b>(558,211)</b>	<b>(794,282)</b>	<b>(812,949)</b>	<b>(565,387)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Share capital issued, net of issue costs	6,071,230	-	6,174,994	15,411
Loan payable	(315,945)	-	(315,945)	-
Note payable	-	(68,014)	-	(68,014)
Deferred financing costs	-	(11,352)	-	(32,477)
Cumulative translation adjustments	-	-	-	-
	<b>5,755,285</b>	<b>(79,366)</b>	<b>5,859,049</b>	<b>(85,080)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Expenditures on mineral properties and interests	(262,870)	-	(475,534)	-
Expenditures on other capital assets	(17,735)	(421)	(17,735)	(268,489)
	<b>(280,605)</b>	<b>(421)</b>	<b>(493,269)</b>	<b>(268,489)</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>4,916,469</b>	<b>(874,069)</b>	<b>4,552,831</b>	<b>(918,957)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>200,764</b>	<b>1,131,597</b>	<b>564,402</b>	<b>1,176,484</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 5,117,233</b>	<b>\$ 257,527</b>	<b>\$ 5,117,233</b>	<b>\$ 257,527</b>

See accompanying Notes to the Consolidated Financial Statements

# CONSOLIDATED FINANCIAL STATEMENTS

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## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Six months ended December 31, 2003

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

### 1) BASIS OF PRESENTATION

These interim consolidated 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

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 and nickel exploration projects located in Madagascar, Sierra Leone, and Greenland.

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

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 \$440,401 related to the acquisition of these assets and incurred during the six-month period ended December 31, 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, received a short-term loan of \$310,000 from a company controlled by a major shareholder of the Company. The loan balance was repaid during the period ended December 31, 2003.

# CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Six months ended December 31, 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	705,981
Accrued interest	293,060
Balance of financial liability component, September 30, 2003	2,293,060
Deduct amount included in current liabilities	(2,293,060)
+ Non-current portion	\$ -

The principal and all accrued interest were due on December 31, 2003, unless certain conditions occurred, including a change in control of the Company or the incurrence of additional debt by the Company without the prior consent of MIL. The amount was not repaid at December 31, 2003 and the Company is currently discussing repayment alternatives with MIL. The face value of the note plus accrued and unpaid interest to December 31, 2003 amounted to \$2,293,075.

### 5) SHARE CAPITAL

During the three months ended December 31, 2003, the Company issued 13,834,774 common shares for proceeds of \$6,071,230. During the six months ending December 31, 2003, the Company issued 14,165,462 common shares for proceeds of \$6,174,994. The Company issued 13,500,000 of these shares through private placements, while the remaining shares were issued pursuant to the Company's Share Purchase Plan and from the exercise of stock options.

#### *Private placements*

During the three-month period ended December 31, 2003 Diamond Fields closed 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 was subject to receipt of shareholder approval, which was obtained on December 17, 2003.

Each Unit consists of one common share of the Diamond Fields and one non-transferable share purchase warrant ("Warrant"), each Warrant entitling the holder to

DIAMOND FIELDS INTERNATIONAL LTD.

# CONSOLIDATED FINANCIAL STATEMENTS

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## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Six months ended December 31, 2003

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

### 5) SHARE CAPITAL (Continued)

purchase one additional common share until November 28, 2006 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.

Diamond Fields paid a finder's fee of 6% of the funds raised by the finders for assisting in the placements and has issued Compensation Receipts to purchase up to a total of 485,430 Shares at an exercise price of Cdn\$0.74 per common share.

#### *Options*

During the three months ended December 31, 2003, 510,000 options were granted to certain employees to purchase common shares of the Company at exercise prices between Cdn\$0.70 and CDN\$0.91 per share. The options carry a five-year term.

Subsequent to December 31, 2003 300,000 options were granted to employees to purchase common shares of the Company at an exercise price of Cdn\$0.56 per share, expiring on February 2, 2009.

Common share purchase options outstanding at February 29, 2004 totaled 4,930,000 with exercise prices ranging from Cdn\$0.31 to Cdn\$.91 per share and expiry dates ranging from April 10, 2004 to February 2, 2009. At February 29, 2004, a total of 67,202,526 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 \$279,646 and \$475,493 would have been recognized for stock-based compensation for the three and six month periods ended December 31, 2003, respectively, and the basic and diluted loss per share would have been \$0.01 and \$0.02, respectively.

# CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO THE CONDOLIDATED FINANCIAL STATEMENTS

Six months ended December 31, 2003

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

### 6) 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	
	2003	2002	2003	2002
(Increase) decrease in:				
Accounts receivable	\$ 68,846	\$ (291,335)	\$ (43,455)	\$ (222,398)
Inventory	(216,586)	(304,285)	(142,661)	(84,764)
Prepaid expenses	(23,232)	(1,899)	(28,625)	(331)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(150,856)	282,991	(149,743)	366,805
	\$ (321,828)	\$ (314,528)	\$ (364,484)	\$ 59,312

### 7) 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, 2003 and 2002 was earned in Namibia.

### 8) RELATED PARTY TRANSACTIONS

Included in accounts payable at December 31, 2003 are legal and other fees, including proxy solicitation costs, totalling \$280,715 (June 2003 - \$306,279) payable to a company controlled by a major shareholder of the Company.

During the six months ended December 31, 2003 the Company paid rent, office and support expenses totalling \$39,000 (December 31, 2003 - \$Nil) to a company with a common officer and director. The expenses relate to an agreement to pay \$7,500 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.