

*First Quarter Report*



*September 30, 2004 and 2003*

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# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

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### **INTRODUCTION**

This discussion and analysis of financial position and results of operations ("MD&A") of Diamond Fields International Ltd. ("Diamond Fields", "the Company", or "DFI") should be read in conjunction with the unaudited consolidated financial statements of Diamond Fields International Ltd. and the notes thereto for the three months ended September 30, 2004 and with the audited annual consolidated financial statements and the notes thereto for the year ended June 30, 2004.

The quarterly financial statements at September 30, 2004 are unaudited and have not been reviewed by the Company's external auditor.

The effective date of this MD&A is November 12, 2004. Additional information about Diamond Fields, including its annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com)

### **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**

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

#### **Mining Operations**

##### *Samicor Joint Operations*

During the year ended June 30, 2004 the Company entered into an agreement, for an initial six month period, with Samicor Mining Services (Pty) Ltd. ("Samicor") to mine diamonds from the Company's marine concessions. Diamond production is split equally on a 50/50 basis between the parties, but operational costs paid by Diamond Fields were capped to a fixed US dollar amount.

Diamond mining by Samicor's marine mining vessel, the mv Kovambo, on the Namibia Marine Diamond Project during the three months ended September 30, 2004 produced 14,744 carats from the Luderitz sea diamond concession (ML111). Sales from both current production and existing inventory

## **DIAMOND FIELDS INTERNATIONAL LTD.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

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amounted to \$4,376,775. Operating costs, including production, royalty and selling expenses associated with the sale of inventory totaled \$1,921,057, and generated a gross margin of \$2,455,718 for the three months ended September 30, 2004.

On October 14, 2004 Diamond Fields announced production had been suspended pending agreement on a new mine plan, and that it had agreed, in principle, with Samicor to amend the terms of the operations. The revised terms would increase DFI's maximum contribution to operating costs and future operations would be on a month to month basis. To date the Company and Samicor have not agreed on a mine plan, and the Company is considering other commercial arrangements with Samicor.

#### *Mining Vessel Acquisition*

On October 14, 2004 Diamond Fields announced it had been declared the winning bidder for the fully equipped twin airlift diamond mining vessel to be named "mv DF Discoverer" (formerly mv Anya) in a sealed tender process ordered by the High Court of Namibia. Under the conditions of sale the vessel will be acquired on closing, free of all liens, encumbrances, preferences and all arrests and attachments effected before the passing of ownership of the vessel.

The Company intends to refit and upgrade the vessel and improve its mining efficiency. DFI contemplates resumption of mining with this vessel in approximately 6 months time after completion of required upgrades. Funding for the purchase price and applicable taxes will be provided under a secured loan from Quest Capital Corp. in the amount of Cdn \$ 1,950,000. Quest Capital Corp. will be paid a fee, subject to regulatory approval, of 380,000 common shares of DFI plus interest for the loan, in addition to the 100,000 common shares of Diamond Fields that were previously issued to it for providing a standby guarantee.

#### *Lease Agreement*

On October 20, 2004 Diamond Fields announced that it had entered into a two year lease with an option to purchase a new marine sampling and mining technology, the Sea Diamond Miner. Under the terms of the deal, Diamond Fields must pay a license fee for two years and can acquire full ownership of the patent for the tool by paying US\$400,000 in a combination of stock and cash within 2 years of the agreement.

### **Exploration**

#### *Joint Venture and Property Acquisition in Greenland*

On July 5, 2004 the Company announced expansion of its Greenland mineral property holdings through a joint venture and direct acquisition of new licences. DFI's Ammassalik project area, on the east coast of Greenland, has been expanded through a joint venture agreement with adjacent land holder NunaMinerals A/S which will allow DFI to earn an initial 65% interest for exploration expenditures of

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

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US\$1.7 million over 3 years at Diamond Fields' option. The Company has also acquired an interest in a new Licensed Area at Nassuttooq in West Greenland covering 84,600 hectares.

Activities during the 2004 summer field season included geologic reconnaissance in both east and west Greenland, and an airborne geophysical survey on the properties in east Greenland. Results of these studies are pending.

### *Liberia Exploration Properties*

In the prior year the Company initiated sampling and reconnaissance work on its two recently obtained mineral reconnaissance licenses in Liberia. On August 12, 2004 Diamond Fields announced it had entered into an option agreement with Liberian-based Ducor Minerals Inc. ("Ducor"), pursuant to which it may earn an interest in Ducor's rights held under two Mineral Exploration Agreements between Ducor and the Republic of Liberia. The Gbapolu and Grand Gedeh Properties cover a total area of 1813.72 km<sup>2</sup> and are prospective for diamonds and gold, respectively.

The Company may earn 70% of Ducor's interest by issuing to Ducor 1,000,000 shares in five annual installments of 200,000 shares each, and by spending US\$2,000,000 on exploration over the next four years. Ducor has the right to request \$30,000 in lieu of one-half of each annual stock issue, and DFI has the right to pay \$60,000 in lieu of one-half of each annual stock issue. The Company may withdraw from the project at any time.

The Company is presently initiating a sampling program and geologic reconnaissance of the Ducor properties.

### *Ogna Nickel-Copper Project in Norway*

The Company initiated an exploration drilling program on its Norwegian properties in late May 2004, following up on the Bjorndalsnipa and Gulldragsvatn geophysical targets in altered and mineralized intrusive rocks of the Rogaland intrusive massifs. On August 17, 2004, the Company announced the results for 1280.7 meters of drilling completed between May 25 and June 17, 2004.

At Bjorndalsnipa, eight drill holes totaling 896 meters targeted nickel and copper mineralization. Interpretation of the drill intersections suggests a semi-cylindrical body of sulfide mineralization, about 50 meters long and 40 meters wide, dipping steeply to the south. A ground geophysical program is planned to search for deeper conductors and generate targets for further drilling

At Gulldragsvatn, 384.5m of drilling targeted nickel, copper, and titanium mineralization related to an extensive mineralized zone in anorthosite and norite. Two 45 degree angled drill holes on a SE bearing returned core lengths of 53m and 90m respectively of anorthosite and norite breccia with massive ilmenite matrix.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

(All amounts are expressed in U.S. dollars except where otherwise indicated)

### Sierra Leone and Madagascar

Based on exploration results and competing priorities management has decided to relinquish three of its four Sierra Leone properties, and not to pursue additional exploration on certain diamond and nickel projects in Madagascar. Accordingly, associated accumulated exploration costs have been written off. The Company is still actively pursuing exploration programs in Sierra Leone and Madagascar notwithstanding the Company's partial write-down of its properties in these countries.

### SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the three months ended September 30, 2004 and 2003 (stated in U.S. dollars).

Three Months Ended September 30:		
	2004	2003 <sup>(1)</sup>
Total Revenues	4,376,775	89,137
Total Operating Costs	1,921,057	81,421
General and Administrative Expenses	823,135	628,994
Other Income (Expense)	(820,685)	142,891
Net Earnings (Loss)	822,159	(478,387)
Net Earnings (Loss) per Share (basic and diluted)	0.01	(0.01)
Total Assets	13,768,412	12,795,165
Total Long Term Debt (including current portion)	1,639,360	1,677,328

<sup>(1)</sup> During the year ended June 30, 2004, the Issuer adopted the amended recommendations of the CISA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". The amended recommendations have been adopted retroactively from July 1, 2002.

### SELECTED QUARTERLY DATA

The following table sets forth selected financial information for the current and four quarters from the preceding financial year (stated in U.S. dollars).

	Year Ending June 30, 2005	Year Ending June 30, 2004 <sup>(1)</sup>			
	30-Sep-04	30-June-04	31-Mar-04	31-Dec-03	30-Sep-03
Total Revenues	4,376,775	Nil	504,252	700,793	89,137
Net Earnings (Loss)	822,159	(1,564,223)	(985,078)	(590,913)	(478,387)
Net Earnings (Loss) per Share (basic and diluted)	.01	(0.03)	(0.01)	(0.01)	(0.01)

<sup>(1)</sup> During the year ended June 30, 2004, the Issuer adopted the amended recommendations of the CISA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". The amended recommendations have been adopted retroactively from July 1, 2002.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

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### **OVERALL PERFORMANCE**

All revenue for the three months ended September 30, 2004 resulted from the sale of diamonds held in inventory or recovered during operations. A total of 20,799 carats were sold at an average price of approximately \$210 per carat generating revenue of \$4,376,775. Comparatively, the Company sold 563 carats in the same period during 2003 at an average price of \$158 per carat generating revenue of \$89,137. Production, royalty and selling expenses associated with the sale of inventory totaled \$1,921,057; whereas, these operating costs for the same period in 2003 were \$81,421. The Company generated an operating margin of \$2,455,718 for the three months ended September 30, 2004 compared with \$7,716 for the same period in 2003.

Net earnings for the three months ended September 30, 2004 was \$822,159 or \$0.01 per share, compared with a net loss of \$(478,387) or \$(0.01) per share in 2003. The increase in earnings was primarily due to the Company's joint operations with Samicor.

The Company incurred general and administrative expenses of \$823,135 during the three months ended September 30, 2004 compared to \$628,994 during the same period in 2003. Interest expense increased from \$97,810 to \$162,032 as the Company renegotiated its long term debt which matured on December 31, 2003. Legal expense increased from \$36,364 to \$55,128. The increase was due to legal fees leading to the acquisition of the Company's new mining vessel. During the year ended June 30, 2004, the Company adopted the amended recommendations of the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". The amended recommendations have been adopted retroactively from July 1, 2002. Office expense increased from \$45,857 during the three months ended September 30, 2003 to \$69,629 for the same period in 2004 as a result of increased staffing requirements. Salaries and benefits for the three months ended September 30, 2004 increased to \$267,847 versus \$213,951 for the same period in 2003 due to salary increases and increased staffing related to the Company's expanded operations. Travel expenses of \$33,365 for the current period increased from \$12,242 in 2003 as a result of increased travel related to the Company's expanded operations. During the three months ended September 30, 2004 the Company recorded a provision for impairment on certain of its exploration properties of \$796,791.

### **CAPITAL RESOURCES AND LIQUIDITY**

At September 30, 2004, the Company had working capital of \$3,019,127 including cash of \$3,553,991 compared with working capital of \$1,932,429, including cash of \$2,401,051, at June 30, 2004. The change in working capital at September 30, 2004 is primarily a result of cash generated from operations.

The Company plans to continue exploration activities, refit and upgrade its newly-acquired mining vessel, and meet its debt repayment obligations. Should existing financial resources and subsequent operating cash flows prove insufficient, the company may need to curtail its planned activities should additional funding not be available.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

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### **TRANSACTIONS WITH RELATED PARTIES**

The Company has a loan supported by a promissory note payable to a company controlled by a major shareholder of the Company. The balance due, including accrued interest to September 30, 2004 amounted to \$2,213,310. The note bears interest at 6% per annum and is repayable, commencing August 15, 2004, in minimum monthly instalments of \$100,000 until maturity on July 15, 2006. This note was issued in settlement of a previous note payable that matured in December 2003.

The noteholder is entitled to elect, at any time prior to the full repayment of the note, to convert all or any part of the outstanding principal of the note plus any accrued and unpaid interest into common shares of the Company at a conversion price of \$0.60 per share. At June 30, 2004, an aggregate of 3,929,335 common shares were issuable under this conversion privilege.

Accounts payable at September 30, 2004 include legal and other fees, including proxy solicitation costs, totalling \$183,000 (June 30, 2004 - \$183,000) payable to a company controlled by a major shareholder of the Company.

During the three months ended September 30, 2004 the Company paid rent, office and support expenses totalling \$22,500 (September 30, 2003 -\$16,500) to a company with a common officer and director. The expenses relate to an agreement to pay \$5,500 - \$7,500 per month for such costs. The agreement can be cancelled with three months notice.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires companies to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgements about matters that are inherently uncertain.

A detailed summary of all of the Company's significant accounting policies and the estimates derived there from is included in Note 2 to the annual Consolidated Financial Statements for the year ended June 30, 2004.

The following policies are considered to be the critical accounting policies as they involve the use of significant estimates:

#### **Mineral Properties**

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the estimated indicated resources (probable diamond reserves), and the estimated future operating results and net cash flows from the Company's mineral properties. On the commencement of commercial production, the net capitalized costs are charged to operations on a unit-of-production basis, by property, using the estimated indicated resources (probable diamond reserves) as the depletion base.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

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The Company carries its mining properties at cost less a provision for impairment. The Company defers exploration and development costs, which are related to specific projects until the commercial feasibility of the project is determinable. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects. The costs of each property and related expenditures will be amortized over the economic life of the property on a units-of-production basis. Costs are charged to operations when a property is abandoned or when impairment in value that is other than temporary has been determined.

The Company undertakes a review of the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value. In undertaking this review, management of the Company is required to make significant estimates of, among other things, future production and sales volume, unit sales prices, future operating and capital costs and reclamation costs to the end of the project's life. These estimates are subject to various risks and uncertainties, which may ultimately have an affect on the expected recoverability of the carrying values of the mining properties and related expenditures.

### **Note Payable**

The note has been accounted for as a compound financial instrument comprising both a financial liability and an equity instrument. The allocation of the proceeds of the note between the two components was based on the estimated present value of the future payments of principal and interest on the note, discounted at the prevailing rate for a similar note without a conversion privilege, and the estimated fair value of the conversion privilege based on a Black-Scholes Model.

### **Stock-based Compensation**

The Company accounts for its grants under the Employees' and Directors' Equity Incentive Plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of grant is charged to operations, with an offsetting credit to contributed surplus, on a graded basis over the vesting period. The Company used the Black-Scholes option pricing model to estimate the value of the options granted.

### **Income Taxes**

Future income tax assets and liabilities are computed based on differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, generally using the enacted income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**(All amounts are expressed in U.S. dollars except where otherwise indicated)**

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### **CHANGES IN ACCOUNTING POLICIES**

During the year ended June 30, 2004, the Company adopted the amended recommendations of the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Under the amended standards of this Section, the fair value of all stock-based awards granted are estimated using the Black-scholes model and are recorded in operations over their vesting periods.

The Section, as it relates to the Company, requires retroactive application and either:

- a) Restatement of prior periods to include as an expense the stock-based compensation expense that was included in the pro forma note disclosures for prior periods; or,
- b) Adjustment to the opening balance of the deficit as of January 1, 2004 for the cumulative effect of the change on, but without restatement of, prior periods.

The Company has adopted the amended standard and applied it retroactively with restatement of prior periods.

### **FINANCIAL INSTRUMENTS**

The carrying amounts of cash, accounts receivable and accounts payable as at September 30, 2004 and June 30, 2004 approximate their fair values. The fair value of the loan payable and the financial liability portion of the note payable are not determinable, due to the non-arm's length nature of these transactions.

The Company operates internationally and as such is exposed to fluctuations in foreign exchange rates. The Company does not currently use financial instruments to limit its exposure to fluctuations in foreign exchange rates.

### **RISKS**

The Company's properties and operations are subject to certain risks including but not limited to government regulations related to mining, mineral prices and currency fluctuations, competition, receipts of permits and approval from government authorities, operating hazards and other risks inherent to mineral exploration, development and mining operations.

### **OUTSTANDING SHARE DATA**

At November 12, 2004, a total of 68,498,403 Common Shares of the Company were outstanding. Stock options outstanding at November 12, 2004 totalled 5,328,000 with exercise prices and expiry dates ranging from Cdn\$0.31 to Cdn\$0.91 per share and October 23, 2006 to July 12, 2009, respectively.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Balance Sheets

(Expressed in U.S. Dollars)

	September 30, 2004 (Unaudited)	June 30, 2004 (Note 2)
<b>ASSETS</b>		
CURRENT		
Cash	\$ 3,553,991	\$ 2,401,051
Accounts receivable	215,030	144,066
Diamond inventory	478,684	454,544
Prepaid expenses	69,075	160,614
	4,316,780	3,160,275
INVESTMENT	1	1
MINERAL PROPERTIES (Note 3)	8,972,413	9,150,887
OTHER CAPITAL ASSETS	479,218	484,003
	\$ 13,768,412	\$ 12,795,165
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 614,988	\$ 713,232
Current portion of note payable (Note 4)	682,665	514,614
	1,297,653	1,227,846
NOTE PAYABLE (Note 4)	956,695	1,162,714
FUTURE INCOME TAXES (Note 5)	1,491,004	1,501,265
	3,745,352	3,891,825
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)		
Authorized - Unlimited number of common shares without par value		
Issued and outstanding - 68,498,403 (June 30, 2004 - 67,958,285)	25,737,313	25,502,804
Contributed Surplus	1,825,284	1,762,233
Equity portion of note payable (Note 4)	709,496	709,496
Deficit	(17,244,299)	(18,066,458)
Cumulative translation adjustments	(1,004,734)	(1,004,734)
	10,023,060	8,903,340
	\$ 13,768,412	\$ 12,795,165

APPROVED BY THE BOARD:

"Gregg Sedun"  
Director

"Roger Daniel"  
Director

See accompanying Notes to the Consolidated Financial Statements

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

Three months ended September 30, 2004 and 2003

(Unaudited - prepared by management)

(Expressed in U.S. Dollars)

	<u>2004</u>	<u>2003</u> (Note 2)
DIAMOND SALES	\$ 4,376,775	\$ 89,137
OPERATING COSTS		
Production costs (including depletion)	1,509,481	73,925
Royalties, selling and marketing	411,576	7,496
	<u>1,921,057</u>	<u>81,421</u>
	<u>2,455,718</u>	<u>7,716</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	28,359	16,255
Consulting	64,471	11,114
Depreciation	7,735	6,485
Interest on note payable (Note 4)	162,032	97,810
Investor relations	18,623	7,623
Legal	55,128	36,364
Maintenance	9,745	18,961
Office	69,629	45,857
Regulatory	7,786	322
Salaries and benefits	267,847	213,951
Stock-based compensation	98,414	162,010
Travel and accommodation	33,365	12,242
	<u>823,135</u>	<u>628,994</u>
OTHER INCOME (EXPENSE)		
Interest and other income	11,035	1,479
Provision for impairment of exploration properties	(796,791)	-
Foreign exchange gain (loss)	(34,929)	141,412
	<u>(820,685)</u>	<u>142,891</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	811,898	(478,387)
RECOVERY OF FUTURE INCOME TAXES (Note 5)	10,261	-
NET EARNINGS (LOSS) FOR THE PERIOD	822,159	(478,387)
DEFICIT, BEGINNING OF PERIOD	(18,066,458)	(14,447,857)
DEFICIT, END OF PERIOD	\$ (17,244,299)	\$ (14,926,244)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.01	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)	68,301	53,050

See accompanying Notes to the Consolidated Financial Statements

# DIAMOND FIELDS INTERNATIONAL LTD.

## Consolidated Statements of Cash Flows

Three months ended September 30, 2004 and 2003

(Unaudited - prepared by management)

(Expressed in U.S. Dollars)

	<u>2004</u>	<u>2003</u> (Note 2)
<b>OPERATING ACTIVITIES</b>		
Net Earnings (loss)	\$ 822,159	\$ (478,387)
Items not involving use of cash		
Depreciation and depletion	229,990	6,485
Accrued interest	18,232	35,834
Non-cash interest expense	106,323	61,976
Recovery of future income taxes	(10,261)	-
Stock-based compensation	98,414	162,010
Provision for impairment of exploration properties	796,791	-
Net change in non-cash operating working capital items (Note 7)	(101,809)	(42,656)
	<u>1,959,839</u>	<u>(254,738)</u>
<b>FINANCING ACTIVITIES</b>		
Share capital issued, net of issue costs	93,791	103,764
Repayment of note payable	(162,523)	-
	<u>(68,732)</u>	<u>103,764</u>
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral properties	(735,217)	(212,664)
Expenditures on other capital assets	(2,950)	-
	<u>(738,167)</u>	<u>(212,664)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>1,152,940</b>	<b>(363,638)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>2,401,051</b>	<b>564,402</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 3,553,991</b>	<b>\$ 200,764</b>

See accompanying Notes to the Consolidated Financial Statements

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three months ended September 30, 2004 and 2003

(Unaudited – prepared by management)

(All amounts are expressed in U.S. dollars except where otherwise indicated)

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### 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, 2004.

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

### 2. ACCOUNTING POLICY CHANGE

During the year ended June 30, 2004, the Company adopted the amended recommendations of the CICA Handbook Section 3870, “Stock-based Compensation and Other Stock-based Payments”. Under the amended standards of this Section, the fair value of all stock-based awards granted are estimated using the Black-scholes model and are recorded in operations over their vesting periods.

Previously, the Company provided note disclosure of pro forma net loss and pro forma loss per share as if the fair value based method had been used to account for stock options granted to employees, directors and officers after July 1, 2002. The amended recommendations have been adopted retroactively.

### 3. MINERAL PROPERTIES

Details of the Company’s mineral properties are described in Note 6 to the Company’s most recent annual financial statements.

	<b>September 30, 2004</b>	Depletion	Exploration expenditures	Provision for impairment	June 30, 2004
Namibian sea concessions	<b>\$ 7,452,370</b>	(222,255)	-	-	\$ 7,674,625
South African sea concessions	<b>1</b>	-	-	-	1
Other exploration properties	<b>1,520,042</b>	-	840,572	(796,791)	1,476,261
	<b>\$ 8,972,413</b>	(222,255)	840,572	(796,791)	\$ 9,150,887

On July 5, 2004 Diamond Fields announced expansion of its Greenland mineral property holdings through a joint venture and direct acquisition of new licences.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Notes to the Consolidated Financial Statements**

Three months ended September 30, 2004 and 2003

(Unaudited – prepared by management)

(All amounts are expressed in U.S. dollars except where otherwise indicated)

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### **3. MINERAL PROPERTIES (Continued)**

DFI's Ammassalik project area, on the east coast of Greenland, has been expanded through a joint venture agreement with adjacent land holder, NunaMinerals A/S, which will allow DFI to earn an initial 65% interest for exploration expenditures of US\$1.7 million over 3 years at Diamond Fields' option.

The Company has also acquired an interest in a new Licensed Area at Nassuttooq in West Greenland.

On August 12, 2004 Diamond Fields announced it had entered into an option agreement with Liberian-based Ducor Minerals Inc. ("Ducor"), pursuant to which it may earn an interest in Ducor's rights held under two Mineral Exploration Agreements between Ducor and the Republic of Liberia. The Gbapolu and Grand Gedeh Properties are prospective for diamonds and gold, respectively.

The Company may earn 70% of Ducor's interest by issuing to Ducor 1,000,000 shares in five annual instalments of 200,000 shares each, and by spending US\$2,000,000 on exploration over the next four years. Ducor has the right to request \$30,000 in lieu of one-half of each annual stock issue, and DFI has the right to pay \$60,000 in lieu of one-half of each annual stock issue. The Company may withdraw from the project at any time.

The Company has recorded a provision for impairment on seventy-five percent of its accumulated exploration expenditures on its Sierra Leone properties and ninety percent of its Madagascar properties. Management has decided to relinquish three of its four Sierra Leone properties, and not to pursue additional exploration on certain diamond and nickel projects in Madagascar. The Company is still actively pursuing exploration programs in Sierra Leone and Madagascar notwithstanding the Company's partial write-down of its properties in these countries.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three months ended September 30, 2004 and 2003

(Unaudited – prepared by management)

(All amounts are expressed in U.S. dollars except where otherwise indicated)

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### 4. NOTE PAYABLE

Details of the note payable are described in Note 9 to the Company's most recent annual financial statements. The financial liability component of the note is comprised of the following:

Total proceeds	\$ 2,349,875
Deduct portion allocated to the equity instrument (the deemed discount on issue)	<u>(709,496)</u>
Financial liability component at inception	1,640,379
Less:	
Principal repayments	(162,523)
Add:	
Accretion of the deemed discount on issue	135,546
Accrued interest	<u>25,958</u>
Balance of financial liability component	1,639,360
Less:	
Amount included in current liabilities	<u>(682,665)</u>
Long-term balance	<u>\$ 956,695</u>

The note bears interest at 6% per annum and is repayable, in minimum monthly instalments of \$100,000 until maturity on July 15, 2006. The nominal balance of the note, including accrued and unpaid interest to September 30, 2004, amounted to \$2,213,310.

### 5. INCOME TAXES

The provision for tax has been reduced as a result of previously un-utilized tax loss carry forwards. The potential future tax benefits of these income tax loss carry-forwards have not been recognized in the accounts of the Company.

# DIAMOND FIELDS INTERNATIONAL LTD.

## Notes to the Consolidated Financial Statements

Three months ended September 30, 2004 and 2003

(Unaudited – prepared by management)

(All amounts are expressed in U.S. dollars except where otherwise indicated)

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### 6. SHARE CAPITAL

During the three months ended September 30, 2004 the following share transactions to place:

96,618 common shares were issued for \$29,500 pursuant to the Company's Share Purchase Plan;

43,500 compensation warrants were exercised at a price of Cdn\$0.74 per share;

200,000 stock options were exercised at a price of Cdn\$0.31 per share;

100,000 common shares with a fair value of \$51,360 (Cdn\$68,000) were issued as a standby fee for a loan guarantee;

100,000 common shares with a fair value of \$53,995 (Cdn\$70,000) were issued as partial compensation for an option to acquire a working interest in certain exploration properties.

During the three months ended September 30, 2004, 200,000 options were granted at a price of Cdn\$0.74 per share. The options vest over three years and expire July 12, 2009. The fair value of stock based compensation for the options granted during the period was estimated at \$14,570. The Company used the Black-Scholes option pricing model to estimate the value of the options at each grant date.

At November 12, 2004, a total of 68,498,403 Common Shares of the Company were outstanding. Stock options outstanding at November 12, 2004 totalled 5,328,000 with exercise prices and expiry dates ranging from Cdn\$0.31 to Cdn\$0.91 per share and October 23, 2006 to July 12, 2009, respectively.

### 7. CASH FLOW INFORMATION

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

	<u>September 30,</u> <u>2004</u>	<u>September 30,</u> <u>2003</u>
(Increase) decrease in:		
Accounts receivable	\$ (70,964)	\$ (112,301)
Diamond inventory	(24,140)	73,925
Prepaid expenses	91,539	(5,394)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(98,244)	1,114
	<u>\$ (101,809)</u>	<u>\$ (42,656)</u>

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Notes to the Consolidated Financial Statements**

Three months ended September 30, 2004 and 2003

(Unaudited – prepared by management)

(All amounts are expressed in U.S. dollars except where otherwise indicated)

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### **8. 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, 2004 and 2003 was earned in Namibia.

### **9. OTHER RELATED PARTY TRANSACTIONS**

Accounts payable at September 30, 2004 include legal and other fees, including proxy solicitation costs, totalling \$183,000 (June 30, 2004 - \$183,000) payable to a company controlled by a major shareholder of the Company.

During the three months ended September 30, 2004 the Company paid rent, office and support expenses totalling \$22,500 (September 30, 2003 - \$16,500) to a company with a common officer and director. The expenses relate to an agreement to pay \$7,500 (2003 - \$5,500) per month for such costs. The agreement can be cancelled with three months notice.

### **10. JOINTLY CONTROLLED OPERATIONS**

During the three months ended September 30, 2004 the Company operated under an agreement, with Samicor Mining Services (Pty) Ltd. ("Samicor") whereby Samicor mines diamonds from the Company's marine concessions. Samicor provided to the operations a vessel equipped with mining tools and costs to Diamond Fields were capped to a fixed US dollar amount. Diamond production is shared by DFI and Samicor on a 50/50 basis.

On October 14, 2004 Diamond Fields announced production had been suspended pending agreement on a new mine plan, and that it had agreed, in principle, with Samicor to amend the terms of the operations. The revised terms would increase DFI's maximum contribution to operating costs and future operations would be on a month to month basis. To date the Company and Samicor have not agreed on a mine plan, and the Company is considering other commercial arrangements with Samicor.

### **11. OTHER SUBSEQUENT EVENTS**

#### **Mining Vessel Acquisition**

On October 14, 2004 Diamond Fields announced it had been declared the winning bidder for the fully equipped twin airlift diamond mining vessel to be named "mv Diamond Fields Discoverer" (formerly mv Anya) in a sealed tender process ordered by the High Court of Namibia. Under the conditions of sale, the vessel will be acquired on closing, free of all liens, encumbrances, preferences and all arrests and attachments effected before the passing of ownership of the vessel.

# **DIAMOND FIELDS INTERNATIONAL LTD.**

## **Notes to the Consolidated Financial Statements**

Three months ended September 30, 2004 and 2003

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### **11. OTHER SUBSEQUENT EVENTS (Continued)**

The Company intends to upgrade the vessel and improve its mining efficiency from that of previous owners. Funding for the purchase price and applicable taxes, if any, will be provided under a secured loan from Quest Capital Corp. in the amount of Cdn \$ 1,950,000. Quest Capital Corp. will be paid a fee, subject to regulatory approval, of 380,000 common shares of DFI plus interest on the loan at 6%, in addition to the 100,000 common shares of Diamond Fields that were previously issued to it for providing a standby guarantee.

#### **Lease Agreement**

On October 20, 2004 Diamond Fields announced that it had entered into a two year lease, with an option to purchase, of a new marine sampling and mining technology, the Sea Diamond Miner. Under the terms of the lease, Diamond Fields must pay a license fee for two years and can acquire full ownership of the patent for the tool by paying US\$400,000 in a combination of stock and cash within 2 years of the agreement.