

Second Quarter Report



December 31, 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)

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 and six months ended December 31, 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 December 31, 2004 are unaudited and have not been reviewed by the Company's external auditor.

The effective date of this MD&A is February 11, 2005. Additional information about Diamond Fields, including its annual information form, is available on SEDAR at 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 and mining factors, 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 six months ended December 31, 2004 produced 31,910 carats (the Company's 50% share was 15,954 cts) from the Luderitz sea diamond concession (ML111). Sales from

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both current production and existing inventory amounted to \$5,391,621. Operating costs, including production, royalty and selling expenses associated with the sale of inventory totalled \$2,490,067, and generated a gross margin of \$2,901,554 for the six months ended December 31, 2004.

On October 14, 2004 Diamond Fields announced production on the Company's marine concessions had been suspended. DFI and its partner did not renew the agreement and Diamond Fields is now planning to re-commence mining activities in 2005 with the mv Discoverer.

Mining Vessel Acquisition

On October 14, 2004 Diamond Fields announced it had been declared the winning bidder for the 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.

The Company intends to refit and upgrade the vessel to improve its mining efficiency. Funding for the purchase price and applicable taxes have been provided under a secured loan from Quest Capital Corp. in the amount of Cdn \$ 1,950,000. Quest Capital Corp. was paid a fee 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 agreement, 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 US\$1.7 million over 3 years at Diamond Fields' option. The Company also acquired an interest in a new licensed area at Nassuttooq in West Greenland covering 84,600 hectares.

The Company announced on November 29, 2004 preliminary results from exploration on its properties in Greenland during the 2004 season. On the east coast, field work on the 63,737 hectare Ammassalik project included a 2,000 line km airborne mag-EM survey completed in July, geological mapping and collection of 390 rock samples. Scree and outcrop grab samples ranging from 0.5% to greater than 1%

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nickel (Ni) were collected in the southern part of the property within a 1.5 km radius of the initial discovery showing. On the west coast, exploration on the 84,600 hectare Nassuttooq property delineated a 5km long zone of alteration within mafic volcanic rocks and discovered several outcroppings of massive sulphides. Analytical results include nickel in the range of 0.1% Ni to 0.3% Ni, and copper (Cu) in concentrations from 0.1% Cu to 0.4% Cu (not coincident) in samples from outcrop and scree boulders.

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 Liberia-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 (Grand Cape) and Grand Gedeh Properties cover a total area of 1813.72 km² 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.

Results from initial diamond and gold exploration were announced on February 1 and February 8, 2005. On the Grand Cape property indicator minerals from the first stream sediment samples include kimberlitic garnets (including G9 and G10 garnets) and kimberlitic ilmenites. On the Grand Gedeh property thirty-nine soil and stream sediment samples included a 17.7 g/t Au sample, and two samples that graded greater than 1 g/t Au. Five samples had visible gold in field concentrates and a further 26 samples were anomalous with Au averaging 0.2 g/t within a 5km x 1km envelope in all directions.

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.

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.

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Sierra Leone and Madagascar

Based on exploration results and competing priorities management 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 six months ended December 31, 2004 and 2003 (stated in U.S. dollars).

Six Months Ended December 31:		
	2004	2003 ⁽¹⁾
Total Revenues	5,391,621	789,930
Total Operating Costs	2,490,067	500,539
General and Administrative Expenses	1,759,626	1,547,442
Other Income (Expense)	(798,524)	176,254
Net Earnings (Loss)	362,172	(1,069,300)
Net Earnings (Loss) per Share (basic and diluted)	0.00	(0.02)
Total Assets ⁽²⁾	15,070,140	12,795,165
Total Long Term Debt ⁽²⁾ (including current portion)	1,593,188	1,677,328

⁽¹⁾ 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.

⁽²⁾ Comparative Total Assets and Total Long Term Debt as at June 30, 2004.

SELECTED QUARTERLY DATA

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

	Year Ending June 30, 2005		Year Ending June 30, 2004 ⁽¹⁾		
	31-Dec-04	30-Sep-04	30-June-04	31-Mar-04	31-Dec-03
Revenues	1,014,846	4,376,775	Nil	504,252	700,793
Net Earnings (Loss)	(459,987)	822,159	(1,564,223)	(985,078)	(590,913)
Net Earnings (Loss) per Share (basic and diluted)	(0.01)	0.01	(0.03)	(0.01)	(0.01)

⁽¹⁾ 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.

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OVERALL PERFORMANCE

All revenue for the six months ended December 31, 2004 resulted from the sale of diamonds held in inventory or recovered during operations. A total of 26,250 carats were sold at an average price of approximately \$205 per carat generating revenue of \$5,391,621. Comparatively, the Company sold 5,728 carats in the same period during 2003 at an average price of \$143 per carat generating revenue of \$789,930. Production, royalty and selling expenses associated with the sale of inventory totalled \$2,490,067; whereas, these operating costs for the same period in 2003 were \$500,539. The Company generated an operating margin of \$2,901,554 for the six months ended December 31, 2004 compared with \$289,391 for the same period in 2003.

Net earnings for the six months ended December 31, 2004 was \$362,172 or \$0.00 per share, compared with a net loss of \$(1,069,300) or \$(0.02) 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 \$1,759,626 during the six months ended December 31, 2004 compared to \$1,547,442 during the same period in 2003. Interest expense increased from \$189,895 to \$315,860 as the Company renegotiated its long term debt which matured on December 31, 2003. Legal expense increased from \$37,472 to \$73,072 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 \$102,707 during the six months ended December 31, 2003 to \$169,893 for the same period in 2004 as a result of increased staffing requirements. Salaries and benefits for the six months ended December 31, 2004 increased to \$569,800 versus \$403,789 for the same period in 2003 due to salary increases and increased staffing related to the Company's expanded operations. During the six months ended December 31, 2004 the Company recorded a provision for impairment on certain of its exploration properties of \$796,791.

CAPITAL RESOURCES AND LIQUIDITY

At December 31, 2004, the Company had working capital of \$728,763 including cash of \$3,299,131 compared with working capital of \$1,932,429, including cash of \$2,401,051, at June 30, 2004. The change in working capital at December 31, 2004 is primarily a result of cash from operations and the recent loan agreement with Quest Capital Corp. used to purchase the vessel mv Discoverer.

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.

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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 nominal balance due, including accrued nominal interest to December 31, 2004 amounted to \$2,023,690. 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. Payments are currently suspended with the consent of the creditor. 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 December 31, 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 six months ended December 31, 2004 the Company paid rent, office and support expenses totalling \$37,500 (December 31, 2003 - \$39,000) 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 was cancelled effective November 30, 2004.

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.

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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, the estimated indicated resources (probable diamond reserves), 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.

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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 December 31, 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 February 11, 2005, a total of 68,895,599 Common Shares of the Company were outstanding. Stock options outstanding at February 11, 2005 totalled 5,628,000 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)

	December 31, 2004 (Unaudited)	June 30, 2004 (Note 2)
ASSETS		
CURRENT		
Cash	\$ 3,299,131	\$ 2,401,051
Accounts receivable	117,368	144,066
Diamond inventory	20,603	454,544
Prepaid expenses	209,652	160,614
	3,646,754	3,160,275
INVESTMENT	1	1
MINERAL PROPERTIES (Note 3)	9,207,199	9,150,887
OTHER CAPITAL ASSETS (Note 4)	2,216,186	484,003
	\$ 15,070,140	\$ 12,795,165
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 605,637	\$ 713,232
Loan payable (Note 5)	1,560,866	-
Current portion of note payable (Note 6)	751,489	514,614
	2,917,991	1,227,846
NOTE PAYABLE (Note 6)	841,699	1,162,714
FUTURE INCOME TAXES (Note 7)	1,482,497	1,501,265
	5,242,187	3,891,825
SHAREHOLDERS' EQUITY		
Share capital (Note 8)		
Authorized - Unlimited number of common shares without par value		
Issued and outstanding - 68,878,403 (June 30, 2004 - 67,958,285)	25,898,601	25,502,804
Contributed Surplus	1,928,875	1,762,233
Equity portion of note payable (Note 6)	709,496	709,496
Deficit	(17,704,286)	(18,066,458)
Cumulative translation adjustments	(1,004,734)	(1,004,734)
	9,827,952	8,903,340
	\$ 15,070,140	\$ 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
(Unaudited - prepared by management)
(Expressed in U.S. Dollars)

	Three months ended December 31,		Six months ended December 31,	
	2004	2003 (Note 2)	2004	2003 (Note 2)
DIAMOND SALES	\$ 1,014,846	\$ 700,793	\$ 5,391,621	\$ 789,930
OPERATING COSTS				
Production costs (including depletion)	439,379	334,984	1,948,860	408,909
Royalties, selling and marketing	129,630	84,134	541,206	91,630
	569,010	419,118	2,490,067	500,539
	445,836	281,675	2,901,554	289,391
GENERAL AND ADMINISTRATIVE EXPENSES				
Accounting and audit	29,632	9,182	57,991	25,437
Consulting	44,874	36,151	109,345	47,265
Depreciation	1,857	6,486	9,592	12,971
Interest on note payable (Note 6)	153,828	92,085	315,860	189,895
Investor relations	59,375	83,361	77,998	90,984
Legal	17,944	1,108	73,072	37,472
Maintenance	10,402	9,707	20,147	28,668
Office	100,263	56,850	169,893	102,707
Regulatory	22,425	29,768	30,211	30,090
Salaries and benefits	301,953	189,838	569,800	403,789
Stock-based compensation	103,591	313,669	202,005	475,679
Travel and accommodation	90,346	90,243	123,711	102,485
	936,491	918,448	1,759,626	1,547,442
OTHER INCOME (EXPENSE)				
Interest and other income	(78,233)	4,337	(67,198)	5,816
Provision for impairment of exploration properties	-	-	(796,791)	-
Foreign exchange gain (loss)	100,395	29,026	65,466	170,438
	22,161	33,363	(798,524)	176,254
EARNINGS (LOSS) BEFORE INCOME TAXES	(468,494)	(603,410)	343,404	(1,081,797)
RECOVERY OF FUTURE INCOME TAXES (Note 7)	8,507	12,497	18,768	12,497
NET EARNINGS (LOSS) FOR THE PERIOD	(459,987)	(590,913)	362,172	(1,069,300)
DEFICIT, BEGINNING OF PERIOD	(17,244,299)	(14,926,244)	(18,066,458)	(14,447,857)
DEFICIT, END OF PERIOD	\$ (17,704,286)	\$ (15,517,157)	\$ (17,704,286)	\$ (15,517,157)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (in 000's)	68,651	58,382	68,476	55,732

See accompanying Notes to the Consolidated Financial Statements

DIAMOND FIELDS INTERNATIONAL LTD.**Consolidated Statements of Cash Flows**

(Unaudited - prepared by management)

(Expressed in U.S. Dollars)

	Three months ended December 31,		Six months ended December 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
		(Note 2)		(Note 2)
OPERATING ACTIVITIES				
Net Earnings (loss)	\$ (459,987)	\$ (590,913)	\$ 362,172	\$ (1,069,300)
Items not involving use of cash				
Depreciation and depletion	9,630	68,712	239,620	75,197
Accrued interest	57,550	30,068	75,782	65,902
Non-cash interest expense	111,746	61,975	218,069	123,951
Recovery of future income taxes	(8,507)	(12,497)	(18,768)	(12,497)
Stock-based compensation	103,591	206,272	202,005	368,282
Provision for impairment of exploration properties	-	-	796,791	-
Net change in non-cash operating working capital items (Note 9)	405,815	(321,828)	304,006	(364,484)
	<u>219,838</u>	<u>(558,211)</u>	<u>2,179,677</u>	<u>(812,949)</u>
FINANCING ACTIVITIES				
Share capital issued, net of issue costs	228,487	6,071,230	322,278	6,174,994
Loan Payable	1,560,866	(315,945)	1,560,866	(315,945)
Repayment of note payable	(178,520)	-	(341,043)	-
	<u>1,610,833</u>	<u>5,755,285</u>	<u>1,542,101</u>	<u>5,859,049</u>
INVESTING ACTIVITIES				
Expenditures on mineral properties	(347,914)	(262,870)	(1,083,131)	(475,534)
Expenditures on other capital assets	(1,737,617)	(17,735)	(1,740,567)	(17,735)
	<u>(2,085,531)</u>	<u>(280,605)</u>	<u>(2,823,698)</u>	<u>(493,269)</u>
INCREASE (DECREASE) IN CASH	(254,860)	4,916,469	898,080	4,552,831
CASH, BEGINNING OF PERIOD	3,553,991	200,764	2,401,051	564,402
CASH, END OF PERIOD	\$ 3,299,131	\$ 5,117,233	\$ 3,299,131	\$ 5,117,233

See accompanying Notes to the Consolidated Financial Statements

DIAMOND FIELDS INTERNATIONAL LTD.

Notes to the Consolidated Financial Statements

Three and six months ended December 31, 2004 and 2003

(Unaudited – prepared by management)

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

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.

	December 31, 2004	Depletion	Exploration expenditures	Provision for impairment	June 30, 2004
Namibian sea concessions	\$ 7,444,597	(230,028)	-	-	\$ 7,674,625
South African sea concessions	1	-	-	-	1
Other exploration properties	1,762,601	-	1,083,131	(796,791)	1,476,261
	\$ 9,207,199	(230,028)	1,083,131	(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.

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Notes to the Consolidated Financial Statements

Three and six months ended December 31, 2004 and 2003

(Unaudited – prepared by management)

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

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 Nassuttoq in West Greenland.

On August 12, 2004 Diamond Fields announced it had entered into an option agreement with Liberia-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 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.

4. OTHER CAPITAL ASSETS

	December 31, 2004		June 30, 2004	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 95,535	\$ -	\$ 95,535	\$ 95,535
Buildings, plant & equip.	300,412	15,131	285,281	285,281
Automobiles	34,076	19,076	15,000	18,000
Office equipment	168,978	102,479	66,499	64,984
Software	17,753	4,578	13,175	14,092
Leasehold improvements	7,285	1,467	5,818	6,111
Vessel and refit costs	1,734,878	-	1,734,878	-
	\$ 2,358,917	\$ 142,731	\$ 2,216,186	\$ 484,003

DIAMOND FIELDS INTERNATIONAL LTD.

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4. OTHER CAPITAL ASSETS (Continued)

Mining Vessel Acquisition

On October 14, 2004 Diamond Fields announced it had been declared the winning bidder for the twin airlift diamond mining vessel “mv Diamond Fields Discoverer” (formerly mv Anya) in a sealed tender process ordered by the High Court of Namibia. The Company is in the process of upgrading the vessel to improve its mining efficiency from that of previous owners.

5. LOAN PAYABLE

Funding for the purchase of the mv Discoverer was provided under a secured loan from Quest Capital Corp. in the amount of Cdn \$ 1,950,000. Interest payments are due on a monthly basis with the principal maturing June 30, 2005. Quest Capital Corp. was paid a fee of 380,000 common shares of DFI plus interest on the loan at 12%, in addition to the 100,000 common shares of Diamond Fields that were previously issued to it for providing a standby guarantee. The loan is secured by a mortgage over the vessel.

6. 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)	(709,496)
Financial liability component at inception	<u>1,640,379</u>
Less:	
Principal repayments	(341,043)
Add:	
Accretion of the deemed discount on issue	218,069
Accrued effective interest	75,782
Balance of financial liability component	<u>1,593,188</u>
Less:	
Amount included in current liabilities	(751,489)
Long-term balance	<u>\$ 841,699</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. Payments are currently suspended with the consent of the creditor. The nominal balance of the note, including accrued and unpaid nominal interest to December 31, 2004, amounted to \$2,023,690.

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

7. 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.

8. SHARE CAPITAL

During the six months ended December 31, 2004 the following share transactions took 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.

380,000 common share with a fair value of \$137,803 (Cdn\$ 171,000) were issued to facilitate a loan.

During the six months ended December 31, 2004, 500,000 options were granted at a prices between Cdn\$0.74 and Cdn\$0.43 per share. The options vest over three years and expire between December 7, 2007 and July 12, 2009. The fair value of stock based compensation for the options granted during the period was estimated at \$40,894. The Company used the Black-Scholes option pricing model to estimate the value of the options at each grant date.

At February 11, 2005, a total of 68,895,599 Common Shares of the Company were outstanding. Stock options outstanding at February 11, 2005 totalled 5,628,000 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.

9. CASH FLOW INFORMATION

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

	Three months ended		Six months ended	
	December 31		December 31	
	2004	2003	2004	2003
(Increase) decrease in:				
Accounts receivable	\$ 97,662	\$ 68,846	\$ 26,698	\$ (43,455)
Inventory	458,081	(216,586)	433,941	(142,661)
Prepaid expenses	(140,577)	(23,232)	(49,038)	(28,625)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(9,351)	(150,856)	(107,595)	(149,743)
	<u>\$ 405,815</u>	<u>\$ (321,828)</u>	<u>\$ 304,006</u>	<u>\$ (364,484)</u>

DIAMOND FIELDS INTERNATIONAL LTD.

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10. 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, 2004 and 2003 was earned in Namibia.

11. OTHER RELATED PARTY TRANSACTIONS

Accounts payable at December 31, 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 six months ended December 31, 2004 the Company paid rent, office and support expenses totalling \$37,500 (December 31, 2003 - \$39,000) 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 was cancelled effective November 30, 2004.

12. JOINTLY CONTROLLED OPERATIONS

During the six month period ended December 31, 2004 the Company operated under an agreement with Samicor Mining Services (Pty) Ltd. ("Samicor") whereby Samicor mined 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 was shared by DFI and Samicor on a 50/50 basis.

On October 14, 2004 Diamond Fields announced production on the Company's marine concessions had been suspended. DFI and its partner did not renew the agreement and Diamond Fields is now planning to re-commence mining activities in 2005 with the mv Discoverer.

13. COMMITMENTS

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.