



**FLINDERS  
DIAMONDS**

20/01/05

Shareholder Reference No:

Number of Options held:

Amount due on Exercise:

FDLO

Dear Option Holder

As at the date of this notice you are the registered holder of Options in Flinders Diamonds Limited, which are due to expire on 20 February 2005. The options will expire unless exercised on or before that date. Please read the following information carefully.

**EXPIRY DATE**

The options expire at 5.00pm (Adelaide time) on Friday 18 February 2005 (the latest business day prior to 20 February 2005). Quotation of these options (FDLO) will cease on the Australian Stock Exchange at the close of trading on Friday 11 February 2005.

**EXERCISE PRICE AND PAYMENT**

The exercise price of the Option is nineteen point two (\$0.192) per Option. Each Option exercised will result in one fully paid ordinary share in the Company being issued.

Should you wish to exercise your Options, cheques in Australian currency equivalent to the amount due on exercise, should be made payable to Flinders Diamonds Limited and crossed "Not Negotiable".

**Cheques and a completed and signed Application for Shares Upon Exercise of Options form should be lodged with Flinders Diamonds Limited share registry, Computershare Investor Services Pty Limited, Level 5, 115 Grenfell Street Adelaide SA 5000 (GPO Box 1903, Adelaide SA 5001), by no later than close of business on 18 February 2005.**

**CONSEQUENCE OF NON-PAYMENT**

Options not exercised by 18 February 2005 will lapse with no value. No further entitlement will exist.

**UNDERWRITING**

No underwriting agreement currently exists in respect of these options.

**PRICES**

1. The latest available market sale price on the Australian Stock Exchange Limited (ASX) before the date of this notice to which the Options may be converted was \$0.026 on 13 January 2005.
2. The highest and lowest sale price on the ASX for the three months preceding the date of this notice and the respective dates of those sales for those securities to which the Options may be converted were:

Highest	\$0.043 cents on 26 October 2004
Lowest	\$0.026 cents on 13 January 2005

Yours Faithfully

M R Billing  
Company Secretary

Flinders Diamonds Ltd  
ABN 46 091 118 044

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Norwood 5067  
South Australia

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FLINDERS  
DIAMONDS

# Flinders Diamonds Limited

ABN 46 091 118 044

20 Boskenna Avenue  
NORWOOD SOUTH AUSTRALIA 5067



000001

MRS PATRICIA MARGARET TAYLOR  
17 BADDELEY AVENUE  
KOHIMARAMA  
AUCKLAND 1005  
NEW ZEALAND

## Application Form on Exercise of Options Expiring 20 February 2005

I/we hereby exercise my/our option to subscribe for  ordinary fully paid shares in Flinders Diamonds Limited at an exercise price of 19.2 cents per share.

I/we enclose application money of

I/we authorise you to register me/us as the holder of the shares to be allotted under my/our SRN/HIN (as shown on my/our Issuer Sponsored holding statement or CHESS holding statement)

and I/we agree to accept such shares subject to the Company's Constitution. Cheques should be made payable to "FLINDERS DIAMONDS LIMITED" and crossed "NOT NEGOTIABLE".

Drawer	BSB	Amount
<input type="text"/>	<input type="text"/>	<input type="text"/>

**Sign Here - This section must be signed for your instructions to be executed.**

I/we authorise you to act in accordance with my/our instructions set out above.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director/Company Secretary

Securityholder 3

Director

Date - Day      Month      Year

*Note: When signed under Power of Attorney, the attorney states that they have not received a notice of revocation. Computershare Investor Services Pty Limited needs to sight a certified copy of the Power of Attorney*

## Authorised Signatures

You must sign this form as follows:

- Joint Holding: Where the holding is in more than one name, all of the securityholders must sign.
- Power of Attorney: To sign as Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.
- Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate space.

**TERMS AND CONDITIONS OF THE OPTIONS ARE OVERLEAF**

## TERMS AND CONDITIONS

1. Entitlement to Ordinary Shares: The Optionholder is entitled on payment of 19.2 cents per share ("the Exercise Price") to be allotted one ordinary fully paid share in the Company for each Option exercised (subject to possible adjustments referred to below).
2. Exercise Period: The Options held by the Optionholder are exercisable in whole or in part (subject to paragraph 4 below), at any time within 3 years of the date on which the Company becomes listed on the ASX ("Exercise Period"). Reminder notices will be forwarded to the Optionholder prior to the expiry of the Exercise Period. Options not exercised before the expiry of the Exercise Period will lapse.
3. Register of Optionholders: The Options will be recorded on the company's Register of Optionholders maintained in Adelaide. The Register will be open for inspection by Optionholders free of charge. Shares to be allotted on exercise of Options will be recorded on the Company's share registry.
4. Method of Exercise of Options: Options are exercisable by the Optionholder completing and signing a Notice of Exercise of Options in the form set out below and lodging it at the office of the Company's share registry, Computershare Investor Services Pty Limited, Level 5, 115 Grenfell Street, Adelaide, South Australia 5000 together with payment of the Exercise Price. A Notice of Exercise of Options will only be effective when the Company has received the full amount of the Exercise Price in cleared funds. Options exercised during a month will be deemed to have been exercised on the last business day of the month. The minimum number of Options which may be exercised at any time is a marketable parcel except where less than a marketable parcel is held in which case all Options must be exercised.
5. Shares allotted on exercise: The Company will make application for official quotation on ASX of new shares allotted on exercise of the Options. Those Shares will participate equally in all respects with existing issued ordinary shares. Options do not carry any dividend entitlement. New shares allotted on exercise of the Options will qualify for dividends declared after the date of their allotment.
6. New Issues: An Optionholder may only participate in new issues of securities to holders of ordinary shares in the Company if the Option has been exercised and shares allotted in respect of the Option before the record date for determining entitlements to the issue. The Company must give prior notice to Optionholders of any new issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules.
7. Pro Rata Issues: If between the date of issue and the date of exercise of an Option the Company makes a rights issue (being a pro rata issue of ordinary shares in the capital of the Company that is not a bonus issue), the exercise price of Options on issue will be reduced according to the following formula:

$$\frac{A = O - E[P - (S + D)]}{(N + 1)}$$

Where:

A = the new exercise price of the Option;

O = the old exercise price of the Option;

E = the number of underlying ordinary shares into which one Option is exercisable

P = the average closing sale price per ordinary share (weighted by reference to volume) recorded on the stock market of ASX during the 5 trading days ending on the day before the ex rights date or ex entitlements date (excluding special crossings and overnight sales);

S = the subscription price for an ordinary share under the pro rata issue;

D = the dividend due but not yet paid on each ordinary share at the relevant time (except those to be issued under the pro rata issue); and

N = the number of ordinary shares that must be held to entitle holders to receive a right to one new ordinary share in the pro rata issue.

8. Bonus Issue: If there is a bonus issue to the holders of ordinary shares in the capital of the Company, the number of ordinary shares over which the Option is exercisable will be increased by the number of ordinary shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.
9. Reorganisation of Capital: If, during the currency of the Options the capital of the Company is reorganised, the rights attaching to the Options will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
10. Transfer: Options may be transferred or transmitted at any time prior to their expiry and same will be recorded on the Company's Register of Optionholders.
11. Meetings: Optionholders appearing on the Company's Register of Optionholders at the relevant date will be entitled to receive and will be sent all reports and accounts required to be laid before shareholders in general meetings and will have the right to attend but shall have no right to vote at such meetings.