



Quarterly Report

Period ending 31 December 2003

HIGHLIGHTS

Flinders Diamonds Limited's (FDL's) December 2003 quarter was particularly active and included the testing of 11 kimberlite targets by drilling 41 holes totalling 2,475 metres and the excavation of 21 trenches. A total of 53 new positive indicator mineral anomalies point towards several undiscovered kimberlites in the Adelaide Hills, Springfield and Hamersley Projects. Approvals have been received to drill test three kimberlite targets at Twin Swamps in the current March quarter. Drill core from the Bleechmore Vermiculite Prospect located an interval of about 36 metres true width containing over 70% coarse vermiculite.

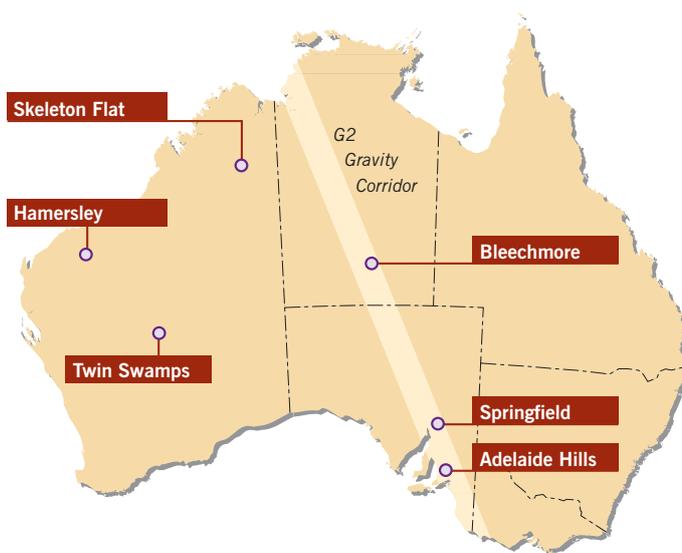


Figure 1 Flinders Diamonds' project locations.

Adelaide Hills Project, SA

- Six samples with kimberlitic indicator minerals located in the drainage catchment containing the Echunga Diamonds
- New and old indicator mineral anomalies and a topographic feature provide encouragement that several new kimberlites will be located in the Lyndoch area

Springfield, SA

- 13 of 16 indicator results from drill samples at Eurelia contained multiple kimberlitic indicator minerals confirming the presence of undiscovered kimberlites suggested by FDL's airborne magnetic survey
- Project review suggests focusing on previously unsampled kimberlites from Eurelia

Hamersley Project, WA

- A second microdiamond located at the Caduceus target
- First kimberlitic minerals from drill samples at the Iraklis target, five kilometres from Caduceus

Twin Swamps Project, WA

- Airborne geophysical survey locates three radiometric anomalies coincident with swamp targets at Twin Swamps

Bleechmore Vermiculite Project, NT

- Two cored drill holes demonstrate presence of coarse vermiculite up to 36 metres true width at Bleechmore and significantly upgrade FDL's geological understanding

EXPLORATION ACTIVITIES REVIEW

In the December quarter of 2003, FDL achieved a high level of exploration activity on five diamond exploration projects and its vermiculite project. A total of 11 kimberlite targets were tested and the foundations were made to test at least another six targets in 2004. The following statistical summary demonstrates the level of activity:

Project	No. of holes drilled	No. of metres drilled	Trenches excavated	Kimberlite targets tested	Indicator samples collected	Results received to date	Positive results to date
Adelaide Hills	-	-	-	-	16	16	5
Springfield	2	1044	-	2	14	14	-
Eurelia *	39	1431	-	8	17	16	13
Hamersley	-	-	-	-	21	21	9
Skeleton Flat	-	-	21	1	31	31	16
Twin Swamps	-	-	-	-	-	-	-
Bleechmore **	2	162	-	-	-	-	-
TOTALS	43	2,637	21	11	99	98	43

* Eurelia is part of the Springfield Project ** Bleechmore is a vermiculite, not a diamond, exploration project

Positive indicator results in the Adelaide Hills and the Hamersley projects are pointing towards the discovery of several new diamondiferous kimberlites. The targets at Twin Swamps will now be drilled in the current March quarter. At Bleechmore, recent core drilling has significantly upgraded our geological understanding of the deposit and will enable the production of a report to aid sale or farm-out of the Project. The 11 targets at Springfield and Skeleton Flat were tested without locating kimberlite. However, each project has other targets to test. At Eurelia, FDL has evidence of a number of undiscovered diamondiferous kimberlite dykes to evaluate, and at Skeleton Flat, four targets (B to E) remain to be tested by drilling. In the March quarter, reviews of priorities will be undertaken.

SOUTH AUSTRALIA

Adelaide Hills Project

A total of 16 diamond indicator mineral samples were collected from the Echunga and Lyndoch target areas in November 2003. Photo 1 shows one of the samples being collected. Results have been received and mineral chemical analysis by electron microprobe is being undertaken to confirm the preliminary findings reported here.

Echunga Area

At Echunga follow up samples were collected in the area where numerous diamonds (up to 5.2 carats in weight) were discovered as a by-product of alluvial gold mining in the 1860s. Since 1979, three companies using modern sampling techniques failed to locate any definite kimberlitic indicator minerals and therefore concluded that the Echunga diamonds were from a distant source. FDL's sampling has now located six positive results as shown on Figure 2. Four contain weathered to fresh kimberlitic pyrope garnet and recent samples AG 31 and

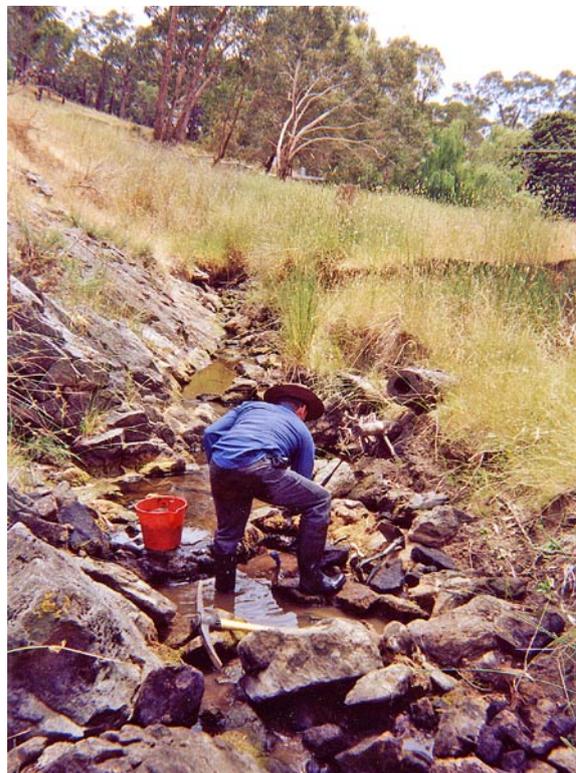
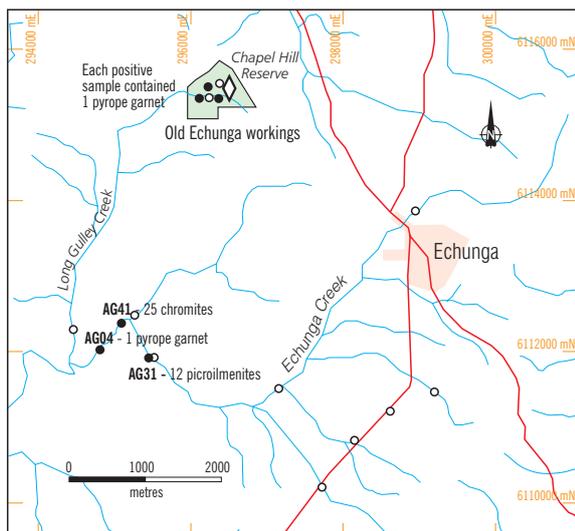


Photo 1 Collecting a recent sample in the Adelaide Hills



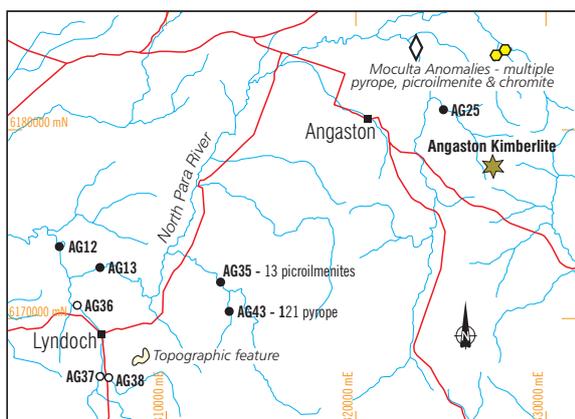
- ◇ Diamond location
- Positive drainage sample
- Negative drainage sample

Figure 2 Echuunga Area.

AG 41 had 12 picroilmenite and 25 kimberlitic chromite grains respectively. These results suggest the likelihood of a diamondiferous kimberlite near Echuunga. It is planned to carry out more detailed geological mapping, trenching, drilling and indicator mineral sampling in the March quarter.

Lyndoch Area

In the Lyndoch area (Figure 3), samples were collected upstream from FDL sites AG 12 and 13 in the North Para River, which had previously reported kimberlitic minerals. New sample AG35 was found to contain 13 kimberlitic picroilmenites while sample AG 43 contained 121



- ◇ Microdiamond location
- Positive drainage sample
- Negative drainage sample

Figure 3 Lyndoch Area.

pyrope garnets. Together with the non-diamondiferous kimberlite at Angaston, discovered by Rio Tinto in 1995, and some encouraging pyrope/picroilmenite results near Moculta, FDL believes it is on track to locate undiscovered kimberlites in the Lyndoch area. A topographic feature which may represent a kimberlite pipe has also been located about three kilometres southeast of Lyndoch. The diamond content of any new discoveries would be determined after they are located.

Springfield Project

A total of 10 kimberlite targets were drill tested during the December quarter. This included cored holes under the Springfield and Boolcunda Basins and air core drilling to test eight gravity targets at Eurelia.

Basin Targets

The holes at Boolcunda and Springfield were drilled to 500 metres and 544 metres respectively. Both holes passed through a sequence of Triassic coal-bearing sediments before passing into Proterozoic metasedimentary bedrock at 440 and 494 metres respectively. Both holes tested their targets as predicted by FDL's seismic interpretation but no kimberlites were intersected. Samples will be collected in overlying sediments near the basement contact to see if there is any support from indicator minerals for a nearby kimberlite.

Eurelia Targets

At Eurelia, the eight principal and several secondary targets were tested by 39 air-core holes totalling 1431 metres, as seen in Photo 2. Holes averaged 37 metres in length and were drilled through mostly recent alluvial cover to intersect Proterozoic metasedimentary bedrock. Hole locations are shown on the Eurelia gravity image on Figure 4. Although no kimberlites were directly intersected, a number of encouraging kimberlitic indicator mineral results with up to 210 anomalous grains were obtained, suggesting the presence of nearby kimberlite. A number of undiscovered kimberlite dykes are suspected from FDL's 2003 Eurelia airborne magnetic survey and further work is planned to locate them.

Geological Review

Following recent results, a geological review of the Springfield Project data base was carried out by an experienced independent consultant. *This review*



Photo 2 *Eurelia air-core drilling – November 2003*

confirmed the overall prospectivity of the Springfield Project and recommended that future emphasis should be placed on locating and testing more of the

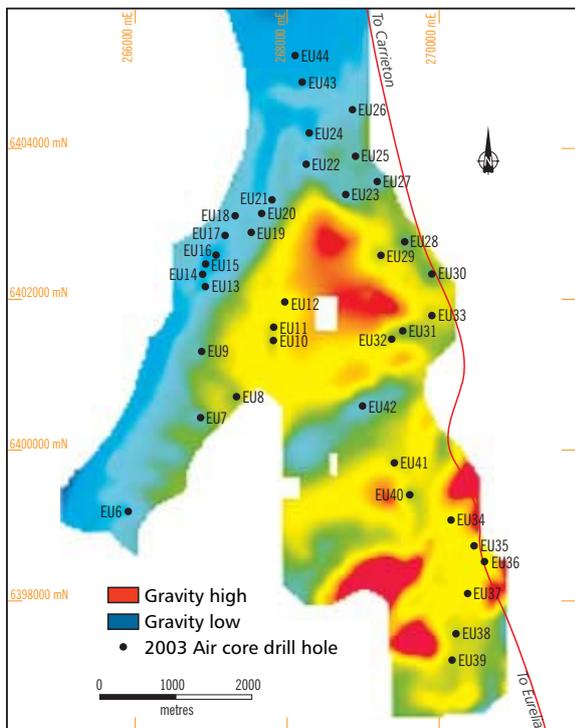


Figure 4 *Eurelia 2003 air-core drill holes on gravity image.*

undiscovered Eurelia diamondiferous dykes and on testing of anomalies identified by interpretation of government-acquired airborne magnetic data.

WESTERN AUSTRALIA

Hamersley Project (Prenti Joint Venture)

The Hamersley Project consists of four tenement areas in the Pilbara Region of Western Australia. The Project is part of the Prenti Joint Venture announced in June 2003. Flinders Diamonds Limited is earning 100% equity by the expenditure of \$2 million. Prenti Exploration Pty Ltd will retain a 5% net profit royalty.

In the December quarter, further laboratory work was completed. This provided further support to conclusions reached in the September quarter and suggested that at least two breccia bodies at Caduceus and Iraklis (five kilometres apart) could represent primary diamond source rocks.

Twenty one kimberlite indicator mineral drill samples were treated during the quarter. Of these, 19 were from the Caduceus body and produced eight positive results containing an additional microdiamond and a variety of pyrope garnet, picroilmenite, chromite and enstatite. Two of the samples were from the Iraklis body and produced one positive sample containing pyrope garnet. Location of the drill holes and target breccia bodies is shown on Figure 5. Each body outcrops over an area of at least 500 metres and detailed geological mapping, followed by core drilling, is planned for the second and third quarters of 2004.

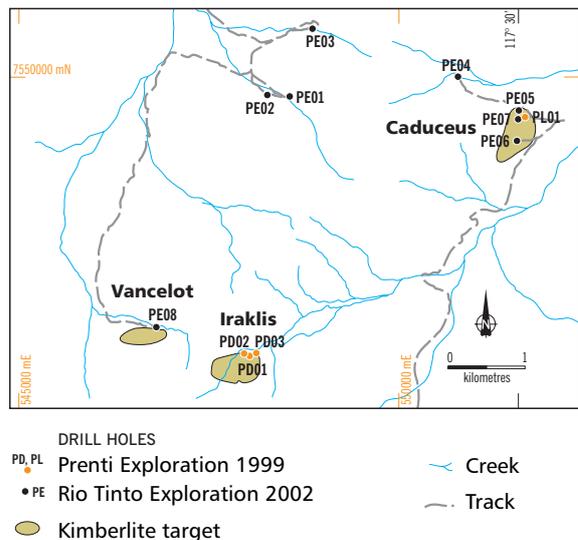


Figure 5 *Hamersley targets and drill hole locations.*

Skeleton Flat Project

Skeleton Flat is located in the East Kimberley about 70 kilometres northwest of Halls Creek. The Project is a Joint Venture between FDL and L. Field and N. J. Towie. FDL is spending \$1.5 million to earn 85%. Previous exploration between 1985 and 1997 located at least three macro-diamond localities and a number of narrow drill intersections of non-diamondiferous kimberlite (Figure 6).

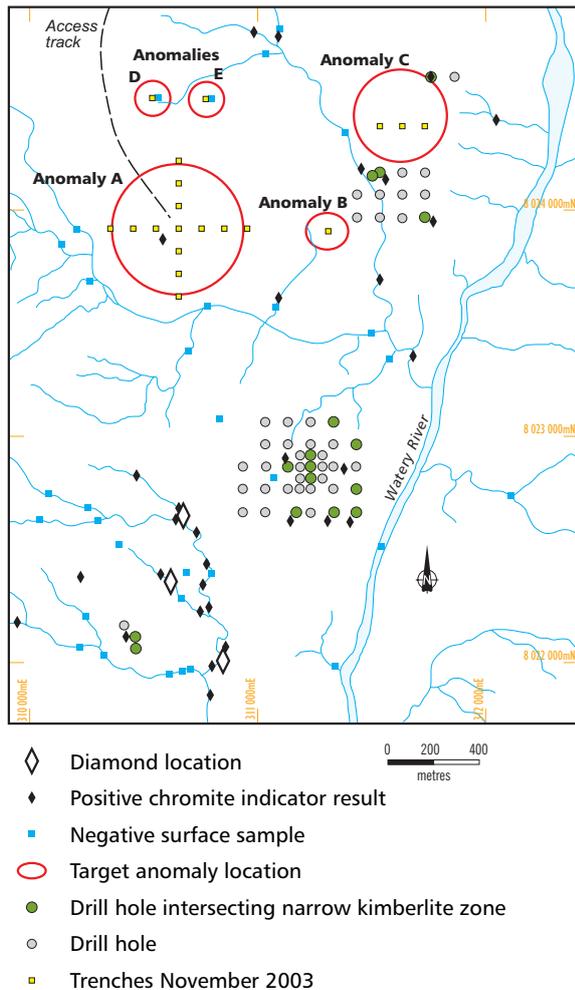


Figure 6 Skeleton Flat targets and sample locations.

A significant amount of work involving access track upgrading and trenching of the main target was carried out in the December quarter. Sections of unused Moola Bulla Station track were upgraded to allow vehicular access. Targets explored are shown on Figure 6. Target A had been identified for some time but targets B to F were identified during this work. These targets were explored by trenching as shown by Photo 3. At anomaly A, 13 trenches were excavated and all bottomed in Elgee

Siltstone at less than three metres depth. At targets B to E, six trenches were dug but bedrock could not be reached and the pits bottomed in gravel or soil. At Target F, two pits were excavated and also bottomed in Elgee Siltstone. No kimberlites were intersected.

Thirty one samples have been collected from the pits and from surface loam and stream locations in the work area and processed for kimberlitic indicator minerals. Sixteen of these gave positive results of from one to seven chromite grains. Mineral chemical analysis by electron microprobe is being undertaken to confirm the preliminary findings reported here. The low number of grains and possible travel distances of 2 to 5 kilometres suggest that none of the samples analysed is very close to source. Exploration in 2004 will focus on completing the bedrock testing program and searching for targets with hundreds of kimberlitic grains in indicator samples. The three unsourced macrodiamond locations on the property remain a testament to the project's diamondiferous kimberlite potential.

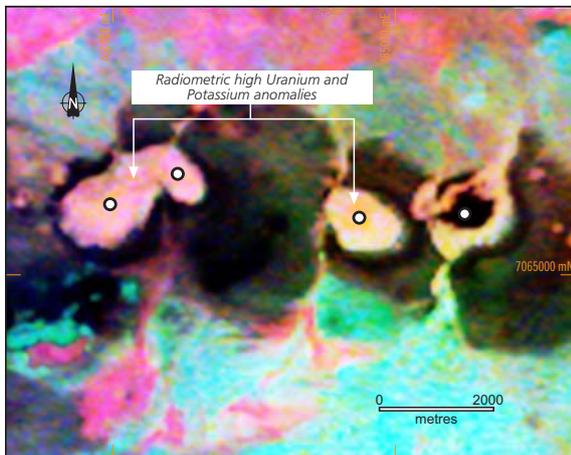


Photo 3 Trenching at Skeleton Flat - November 2003.

Twin Swamps Project

Twin Swamps is located in the Nabberu Basin about 200 kilometres east of Wiluna in the centre of Western Australia. Diamondiferous kimberlites have been previously located at Buljah Pool and the Jewill Prospect located between 50 kilometres north and 100 kilometres northwest of Twin Swamps.

FDL's initial program comprised the flying and interpretation of a 1,371 line kilometre high resolution airborne magnetic and radiometric survey early in November. The Twin Swamp targets can be seen in magnetic data but do not have a strong response. In the radiometric data, a distinctly anomalous response of 20 to 30 times local background, is associated with the Swamps as illustrated on Figure 7. This response may be caused by slightly radioactive minerals associated with a kimberlite or carbonatite. FDL was prepared to drill test the three targets in December, after carrying out an Aboriginal heritage clearance survey. The survey was carried out on 26 and 27 November, but the results were not available in time to carry out the work in 2003. Approval from the Ngaanyatjarra Council has since been obtained and an air-core drilling program to test the targets illustrated on Figure 7 will be carried out in the March quarter.



- Proposed drill target
- Access track

Figure 7 Location of proposed Twin Swamps drill holes and Radiometric Image.

NORTHERN TERRITORY

Bleechmore Vermiculite Prospect

The Bleechmore Vermiculite Prospect is located about 100 kilometres northeast of Alice Springs. FDL discovered vermiculite mineralisation during a drilling program to test magnetic anomalies for kimberlites in November 2002. In the first half of 2003, a deposit was outlined and an evaluation drilling program undertaken. This program outlined a large area of vermiculite mineralisation as shown on Figure 8. An important specification for commercial vermiculite is that approximately 30% of the product needs to consist of flakes over one mm in size. Since evaluation drilling used abrasive drill bits, the true flake size of Bleechmore vermiculite was not known.

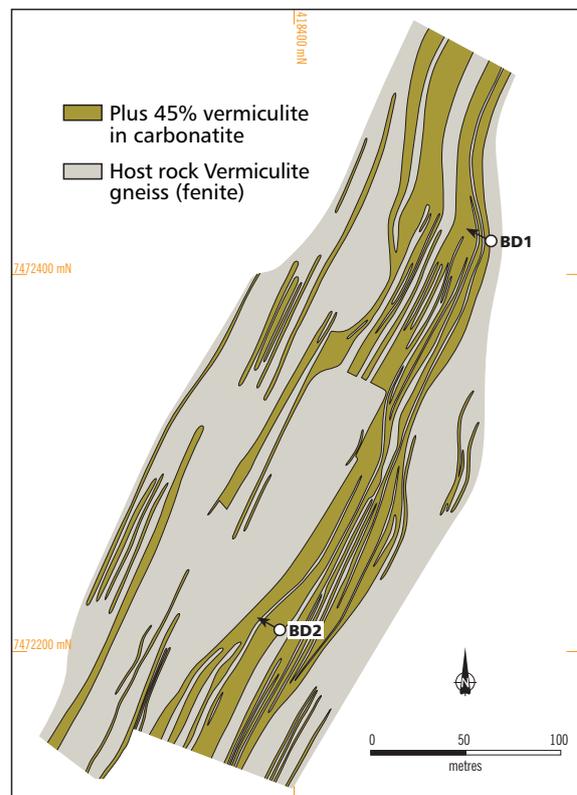


Figure 8 Bleechmore plan of interpreted vermiculite zones.

In November, therefore, two diamond drill holes were completed, one adjacent to a previously drilled RAB hole and the other next to an air-core hole, to obtain samples for particle size determination. Holes were drilled by the



Photo 4 Vermiculite rich Bleechmore drill core from 27.5 to 32.0 metres in hole BD1.

HQ triple tube method and good recovery, even in soft zones, was achieved. Holes BD1 and BD2 were 80.7 and 81.3 metres long respectively and their locations are shown on Figure 8. Hole BD1 intersected a high grade vermiculite zone from 3 to 48 metres downhole (about 36 metres true width) consisting of over 70% vermiculite. The core tray storing 4.5 metres of core from 27.5 to 32 metres from hole BD1 is shown in Photo 4. This zone is composed of continuous coarse-grained vermiculite. Particle size testwork is being carried out on quarter core samples.

Hole BD2 intersected six high grade vermiculite zones but they were composed of a finer grain size than in hole BD1. Examination of the drill core has enabled a much better understanding of the geological situation than was possible from pulverised samples. The mineralised zones consist of a vermiculite-rich carbonatite which has invaded and altered biotite gneiss host rock which is known geologically as "fenite". The vermiculite carbonatite is composed of coarse mica, while the fenite contains fine mica. The commercial potential therefore depends on the ratio of carbonatite to fenite. This is the subject of ongoing evaluation. It is expected that during the March quarter, a report enabling interested parties to consider a purchase of, or farm-in to the project, will be completed.

CORPORATE

Supreme Court Proceedings

The outcome of the appeal by Tiger International Resources Inc, Patric Barry, Anthony Campbell, Campbell Corporation Pty Ltd and Balance Tax Pty Ltd is awaited.

Finance

On 31 December 2003, the company had available funds of \$2.52 million. Exploration expenditure by the company during the December quarter was \$523,000 and forecast expenditure for the March quarter is \$250,000.

Dr Kevin JA Wills
Managing Director

30 January 2004

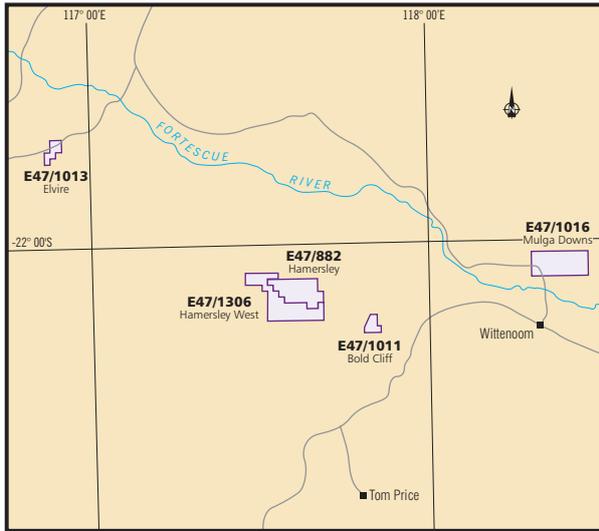
The information in this report has been compiled by Dr KJA Wills who is a Fellow of the Australasian Institute of Mining and Metallurgy and who is bound by and follows the Institute's codes and recommended practices. He has a minimum of five years experience in the types of activities being reported.

Enquires should be directed to Dr Kevin Wills, Managing Director on (08) 8362 5900 or 0419 850 997.

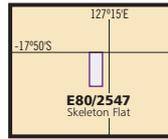
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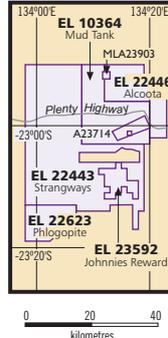
Hamersley



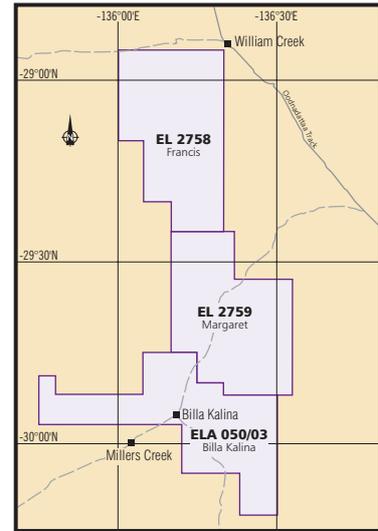
Skeleton Flat



Strangways



G2

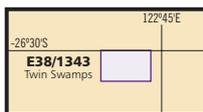


Tenement locations

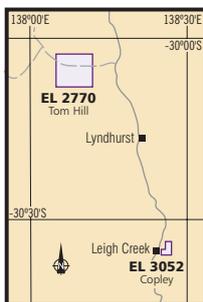
31 December 2003



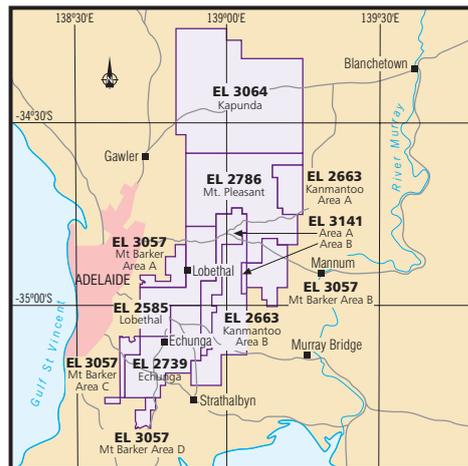
Twin Swamps



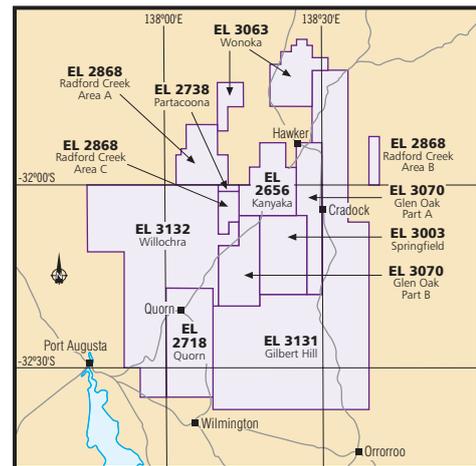
Leigh Creek



Adelaide Hills



Springfield



AUSGEN 002

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98

Name of entity

FLINDERS DIAMONDS LIMITED

ACN or ARBN

ACN 091 118 044

Quarter ended ("current quarter")

31 DECEMBER 2003

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	0	0
1.2 Payments for		
(a) exploration and evaluation	(523)	(892)
(b) development	0	0
(c) production	0	0
(d) administration (Note 6)	(158)	(317)
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	11	21
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid	0	0
1.7 Other (Note 6)	(58)	(83)
Net Operating Cash Flows	(728)	(1,271)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	0	0
(b) equity investments		
(c) other fixed assets	0	(3)
1.9 Proceeds from sale of:		
(a) prospects	0	0
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities	0	0
1.11 Loans repaid by other entities	0	0
1.12 Other (provide details if material)	0	0
Net investing cash flows	0	(3)
1.13 Total operating and investing cash flows (carried forward)	(728)	(1,274)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(728)	(1,274)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	2,542	3,196
1.15	Proceeds from sale of forfeited shares	0	0
1.16	Proceeds from borrowings	0	0
1.17	Repayment of borrowings	0	0
1.18	Dividends paid	0	0
1.19	Other - prospectus issue costs (placement) (Note 6)		
	Net financing cash flows	2,542	3,196
	Net increase (decrease) in cash held	1,814	1,922
1.20	Cash at beginning of quarter/year to date	708	600
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	2,522	2,522

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	85
1.24	Aggregate amount of loans to the parties included in item 1.10	0

1.25 Explanation necessary for an understanding of the transactions

Amount of \$71,763 at 1.23 comprises directors fees – R M Kennedy (\$18,750) E J Vickery (\$18,750), Salary payments to K J A Wills (\$32,700), and consulting payments to related corporations of directors – M R Billing – alternate for Dr. Wills (\$14,865)

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Expenditure during the quarter by joint venture parties on tenements in which the Company has an interest amounted to nil.

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development	0
Total	250

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	22	46
5.2 Deposits at call	2,500	150
5.3 Bank overdraft	0	0
5.4 Other – Escrow account holding funds raised from the shareholders rights issue in progress at end of the quarter	0	512
Total: cash at end of quarter (item 1.22)	2,522	708

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased	EL 3141 (SA)	0	100%

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	Nil			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil			
7.3 +Ordinary securities	127,850,956	98,506,664	N/A	Fully Paid Up
7.4 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	63,924,978 1,000	63,924,978 1,000		Fully Paid Up Fully Paid Up
7.5 +Convertible debt securities <i>(description)</i>	Nil			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	11,268,859 16,655,686 5,850,000 63,924,978	16,655,686 5,850,000 63,924,978	<u>Exercise price</u> 20 20 10 10	<u>Expiry date</u> 31 December 2005 20 February 2005 29 September 2008 29 September 2008
7.8 Issued during quarter	63,924,978	63,924,978	10	29 September 2008
7.9 Exercised during quarter	Nil			
7.10 Expired during quarter	Nil			
7.11 Debentures <i>(totals only)</i>	Nil			
7.12 Unsecured notes <i>(totals only)</i>	Nil			

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies complying with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



(Company Secretary)

Date 30 January 2004

Print name: Michael Billing

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
- 6 Amounts totalling \$71,000 have been paid by way of legal fees, consulting fees, and other costs, in respect of the action taken against Mr Patric Barry, Tiger International Resources Inc, Mr Anthony Campbell, Campbell Corporation Pty Ltd, and Balance Tax Pty Ltd.

+ See chapter 19 for defined terms.