

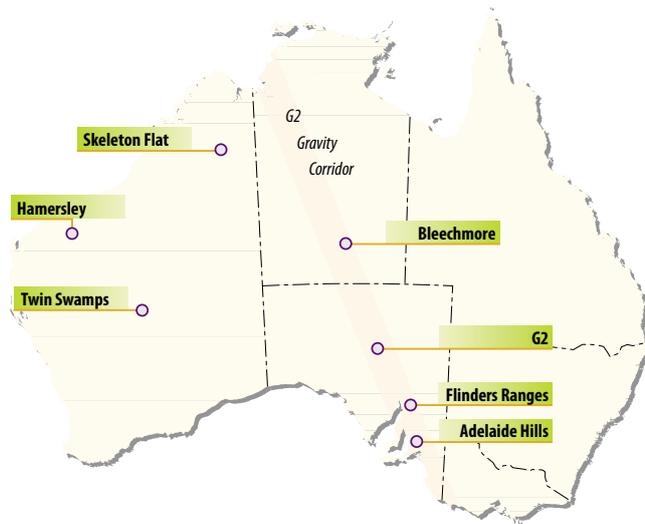


Quarterly Report

Period ending 30 September 2004

HIGHLIGHTS

- *Discovery of FDL's first diamondiferous kimberlite in the Eureka area of the Flinders Ranges Project.*
- *Twelve additional kimberlites located and ten samples are currently being processed for microdiamond content.*
- *Further diamondiferous kimberlite discoveries expected in the December Quarter.*



Flinders Ranges Project, SA

- *12 new kimberlite dykes discovered in September and October*
- *Magnetics proving effective for identifying previously undetected kimberlites*
- *Hundreds of additional magnetic targets outlined*

Adelaide Hills Project, SA

- *Ongoing interpretation of Barossa Ranges magnetic survey and soil sample results, leading to new targets to follow-up.*

Skeleton Flat Project, WA

- *One five-kilometre long, 1.2 metre wide, kimberlite dyke confirmed in vicinity of previous alluvial diamond occurrences*
- *Five kimberlite samples collected from trenches with microdiamond determinations underway*

Hamersley Project, WA

- *Reconnaissance gravity survey and additional diamond indicator mineral anomalies help prioritise targets for drill testing in 2005*

EXPLORATION ACTIVITIES REVIEW

During the September 2004 Quarter, Flinders Diamonds Limited (FDL) continued its active exploration program, focusing on four projects in two states. These are the Flinders Ranges and Adelaide Hills Projects in South Australia and the Hamersley and Skeleton Flat Projects in Western Australia.

In the Flinders Ranges, projects previously known as Springfield, Jamestown and Nackara have been combined and renamed the Flinders Ranges Project. Work on this project focused on the Eurelia area and resulted in the discovery of 12 kimberlite dykes. Microdiamond determinations have been carried out on three of the dykes from Eurelia and one of the samples returned two microdiamonds. Microdiamond determinations are being carried out on the remaining samples. A combination of airborne magnetics and follow-up ground magnetic traverses is proving effective in discovering new kimberlites in the Flinders Ranges.



Figure 2 Ryan Greenhalgh carrying out ground magnetics at Eurelia - September 2004.

In the Adelaide Hills, Flinders Diamonds is actively following up magnetic anomalies identified from the June airborne magnetic survey. A number of combined magnetic, soil and diamond indicator mineral anomalies are being followed up.

In Western Australia, a gravity survey and indicator mineral sampling program has been carried out on all four ELs in the Hamersley Project. All data will be assessed prior to drilling in 2005, once prospecting licences or amalgamations have been granted.

At Skeleton Flat in the Kimberley Region, a program of trenching was carried out between 15 and 20 October. This work confirmed the presence of a five kilometre long, 1.2 metre wide kimberlite dyke which FDL hopes is the source of previously recovered macrodiamonds in the area. Five kimberlite samples have been sent for microdiamond determination.

SOUTH AUSTRALIA

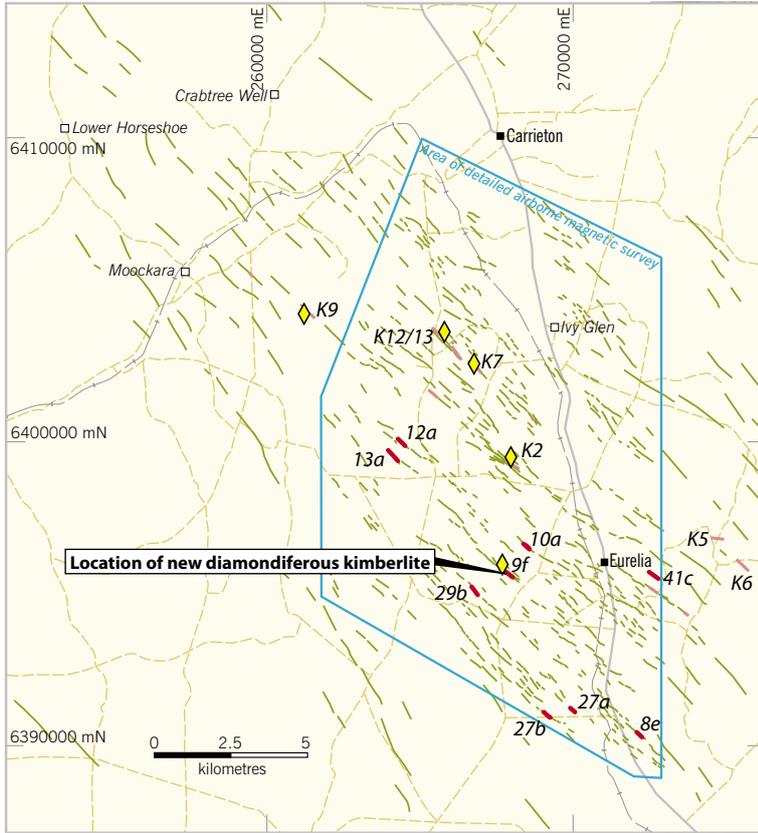
Flinders Ranges Project

Eurelia Area

In the last six months, FDL has developed techniques to locate primary kimberlite from airborne magnetic data. Interpretation of regional airborne magnetic images led to the recognition of three major kimberlite dyke swarms and resulted in acquisition of the tenements referred to previously as the Jamestown and Nackara Projects. Together with the existing Springfield area, these projects have been renamed the Flinders Ranges Project.

Recent work has focused on the Eurelia area, where a 100 metre line spaced airborne magnetic survey, flown by FDL in 2003, has identified hundreds of linear magnetic features targeted as potential kimberlite dykes. Airborne magnetic data is being followed up with ground magnetic traverses (Figure 2).

Since June 2004, 105 airborne magnetic targets have been assessed by 403 line kilometres of ground magnetic traverses. Once ground located, the targets are being trenched with an excavator in areas of shallow cover. It may take several trenches to test each



- Kimberlite dyke discovered by FDL..... 9f
- Kimberlite dyke discovered by Stockdale.. K7
- Magnetic features - possible dykes.....
- Diamond location.....
- Main road.....
- Track.....
- Abandoned railway ..

Figure 3 Eureka kimberlite targets.

target and so far about half the targets tested have resulted in new kimberlite discoveries. At the others, either bedrock could not be reached, or no kimberlite was recognised. To date, 12 new kimberlite dykes have been discovered. Location of the new kimberlite trends in relation to the diamondiferous kimberlites located by De Beers exploration subsidiary, Stockdale Prospecting Limited, in the late 1970s, are shown in Figure 3.

Once a probable kimberlite is defined, its kimberlitic chemistry is confirmed by chemical analysis for major and trace elements. Samples of approximately 20 kg are then sent for microdiamond determination. Results from dykes 8e, 9f and 27b (Figure 3) recently became available and sample 9f contained two microdiamonds. This diamond content is not in itself likely to be economic, but the result is an important

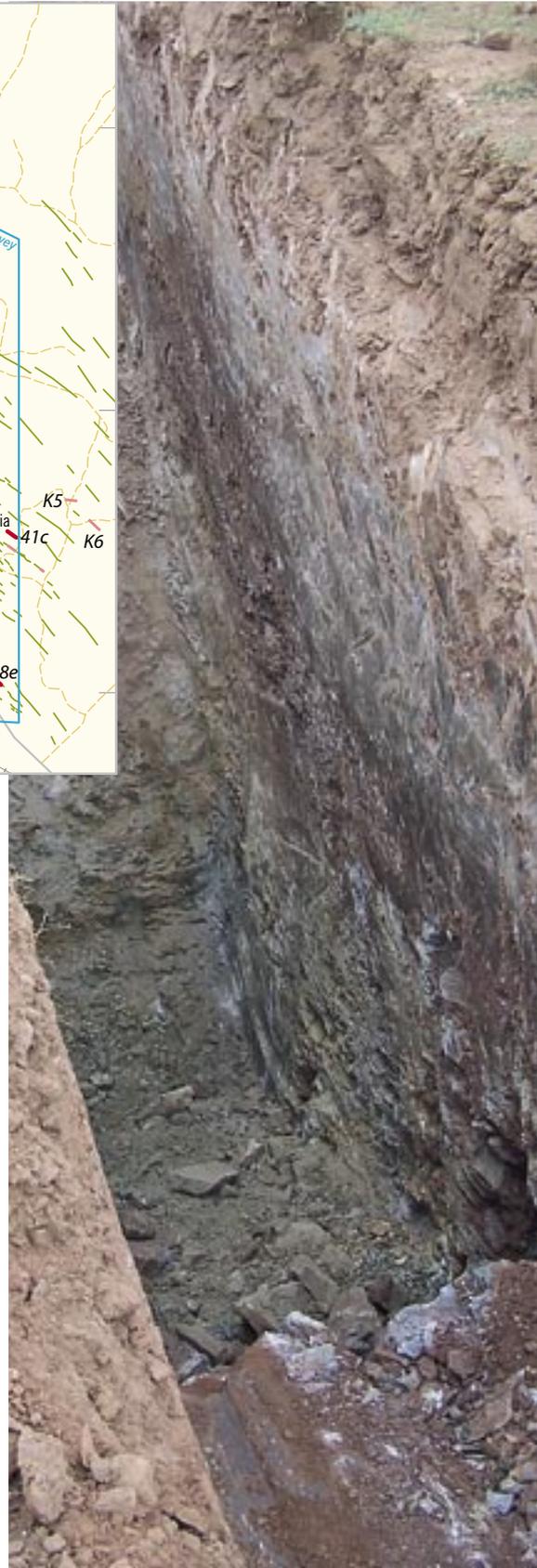


Figure 4 Location of diamondiferous kimberlite sample 9f, the green-grey dyke is about one metre wide.

milestone in FDL's search for diamondiferous kimberlites, and further work is justified.

Sample 9f is part of a dyke about one metre wide which can be traced for at least two kilometres, and represents the first diamondiferous kimberlite located by FDL. The sample site is shown in Figure 4. It is anticipated that additional diamondiferous dykes will be located in the coming months. Follow up sampling of larger samples will be undertaken on those with the highest microdiamond contents.

Remainder of Flinders Ranges Project

FDL has now demonstrated an ability to find diamondiferous kimberlites by following up airborne magnetic anomalies, rather than the more time consuming and expensive process of diamond indicator mineral sampling. Interpretation of the 2003 high-resolution, 100 metre line-spaced airborne magnetic survey in the Eureka area has proved particularly useful in identifying the recently discovered kimberlite dykes. Eureka is only one of 22 known diamond occurrences in the 15,000 square kilometre Flinders Ranges Project area, so large areas will need to be covered by new surveys to help locate the many other primary sources likely to be present (see Figure 5).

Other activities have included the compilation and interpretation of regional airborne magnetic data to define linear magnetic trends leading to ground magnetics on targets in the Boolcunda and Peterborough areas. It is possible that the source of the Boolcunda and Springfield diamonds could

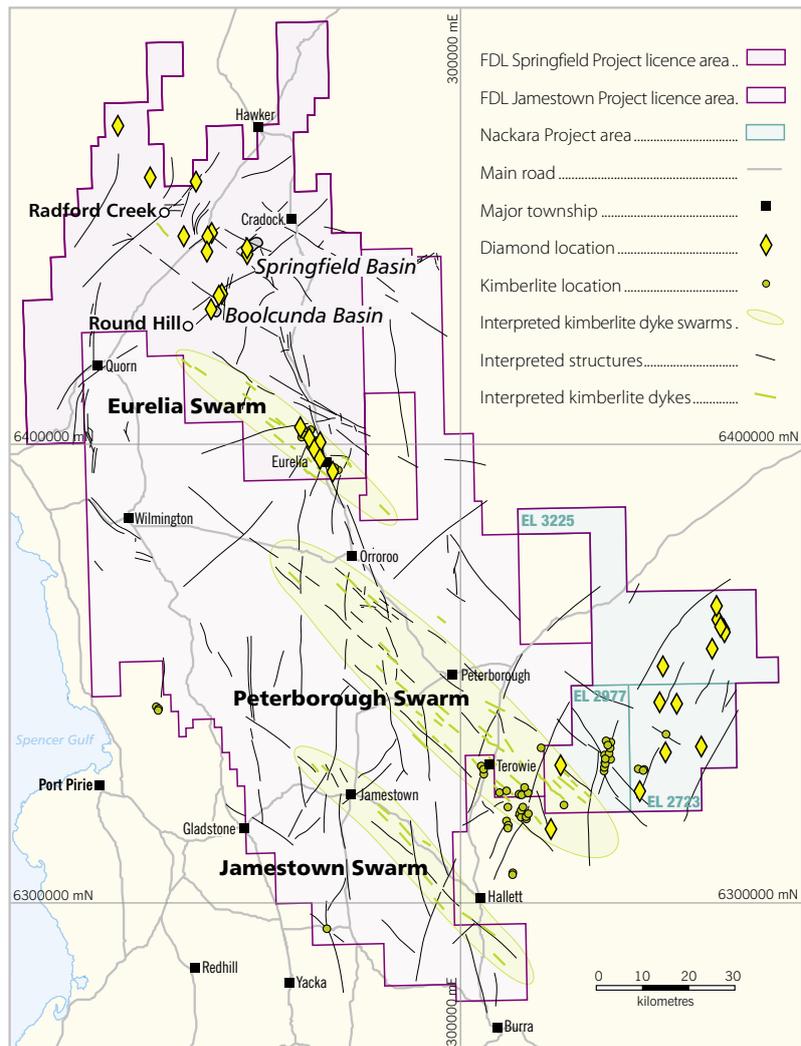


Figure 5 Flinders Ranges Projects - regional diamond prospectivity

be northwest trending kimberlite dykes and work is being undertaken to evaluate potential targets. Recent trenches to test a number of linear anomalies in the Boolcunda Creek area were unable to penetrate the cover so drill testing of these targets is planned.

FDL's consultant's work to locate possible secondary indicator sources at Radford Creek and Round Hill (Figure 5) has reached the stage where very high quantities of fresh diamond indicator minerals have been located. At this stage it is suspected that undiscovered primary kimberlites are responsible for the anomalies and ground magnetic surveys, followed by trenching, are planned for the December quarter.

Adelaide Hills Project

The Barossa Ranges airborne magnetic survey, which was flown during June 2004, has produced excellent data. The survey data has been interpreted and numerous anomalies identified. FDL has prioritised those anomalies located in drainage DIM anomalous areas and field follow up has commenced. Each target area is visited and soil and any interesting rock samples are collected and analysed for elements known to be anomalous in kimberlites. Where encouraging results are obtained, areas are revisited to carry out further testing by trenching or drilling. This work is in progress and it is expected to lead to the recognition of a number of new kimberlite bodies. These may be kimberlite pipes or dykes. Once new kimberlites are located, a 20 kg sample will be sent for microdiamond determination.



Figure 6 Darren Jones and Peter Everuss power augering in the Barossa Ranges

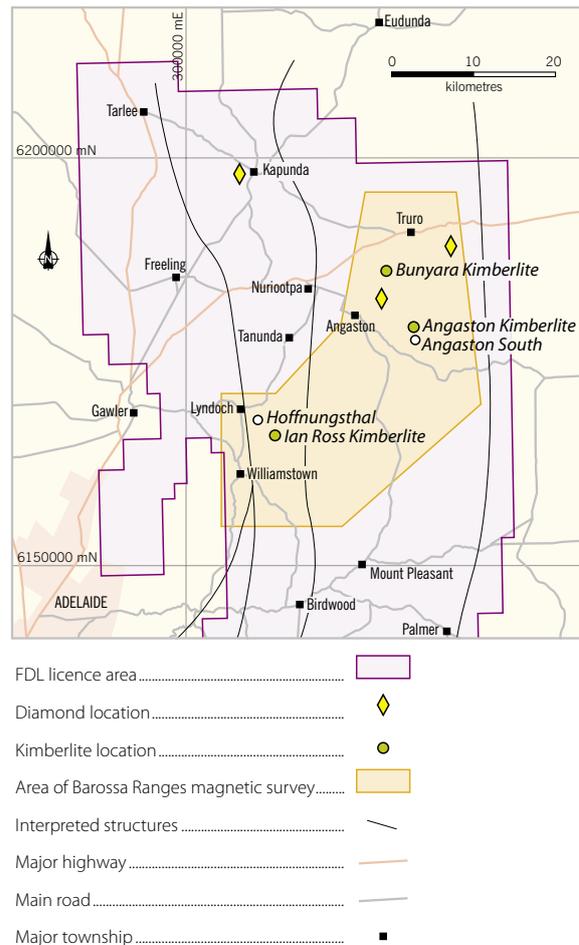


Figure 7 Barossa Ranges Project Area

Results to date have been mixed. A number of magnetic anomalies, thought to be possible kimberlites, have been soil sampled (Figure 6). Analyses have found nickel, chromium and niobium anomalies, suggesting the presence of hidden kimberlite. However, some of these anomalies have proved to be caused by non-kimberlitic Truro Volcanics that have a similar chemical signature. Elsewhere, magnetic soil anomalies have yet to be tested and some may represent kimberlites. Activities have recently been reassessed and further diamond indicator mineral sampling as well as assessment of other types of magnetic anomalies is planned. Additionally, short drill holes are planned to test kimberlite targets at Angaston South, Bunyara and Hoffnungsthal (Figure 7) in the December 2004 Quarter.

G2 Project

Monitoring of available ground during the quarter led to an application for a fourth licence, along the western margin of EL 2759. ELA 615/04, Welcome Creek, covers possible southwest extensions of the indicator anomaly, plus an untested aeromagnetic anomaly identified by a previous explorer (Figure 8). Once the fourth licence is granted, ground magnetics will be carried out over the untested anomaly so that it can be drill tested in a new drilling program.

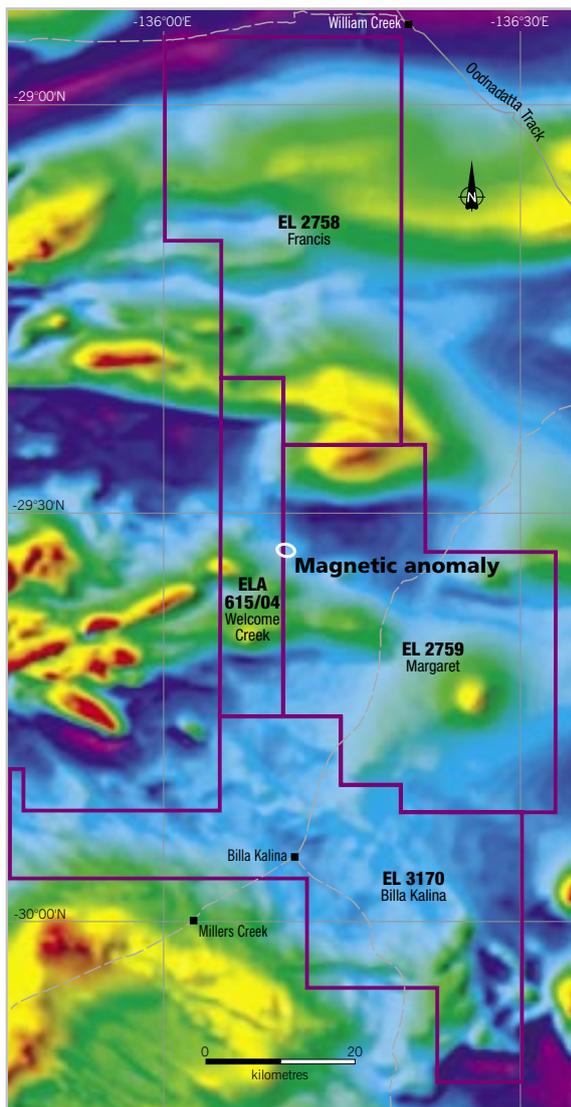


Figure 8 G2 Project Area and regional airborne magnetics.

NORTHERN TERRITORY

Bleechmore Vermiculite Project

An application has been made for title to an additional vermiculite deposit (Mud Tank West), outlined by NT Mines Department exploration in 1975, located four kilometres southwest of the Mud Tank Vermiculite Mine. If granted to FDL, the Company will have secured a 100% interest in two vermiculite resources in the vicinity of the Mud Tank Carbonatite.

Early exfoliation tests in a muffle furnace on samples from the Bleechmore Vermiculite Prospect have given promising degrees of expansion. These results are currently being checked at a South African laboratory that specialises in commercial vermiculite test work. When the latest results are available, a project report will be finalised and FDL will seek an industrial minerals specialist joint venturer to continue exploration and evaluation work in the Bleechmore and Mud Tank West areas.

WESTERN AUSTRALIA

Skeleton Flat Project

The Skeleton Flat Project is located about 65 kilometres northwest of Halls Creek in the highly prospective Kimberley Region of Western Australia. After reassessing data from a 1996 high-resolution aeromagnetic survey a possible kimberlite dyke swarm was identified. The main target is a five kilometre long, north-northeast trending dyke that may be the source for the two macrodiamond localities near its southern end (Figure 9). Trenching and sampling of the dyke swarm was undertaken between 15 and 20 October 2004.

Ground magnetic traverses were very successful in locating the main dyke because the magnetic background is quiet and the main dyke is highly magnetic. The main dyke is near vertical and ranges

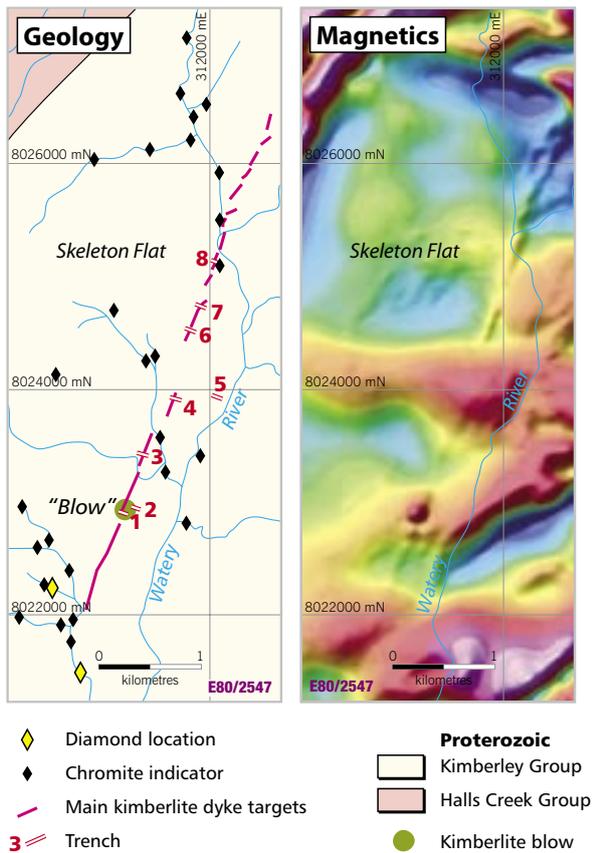


Figure 9 October kimberlite dyke sampling locations at Skeleton Flat.

in width from 0.8 to 1.8 metres, averaging about 1.2 metres. Other magnetic features, originally thought to be smaller, parallel dykes were not generally detectable by ground magnetic surveying, and are now thought to represent slightly magnetic faults. Eight trenches were dug, as shown on Figure 9. Five intersected a variety of green-blue-grey kimberlite facies material, while in one trench the overburden was too deep to reach the dyke and in two trenches no kimberlite was intersected. Trench 1 sampled a small kimberlite pipe or "blow" about 80 metres across, that had been located by previous exploration in 1996. Five representative samples, each of about 20 kg, from trenches 1, 3, 4, 7 and 8 have been freighted to Perth for microdiamond testing.

Hamersley Project

FDL's drill targets in the Hamersley EL lie inside two Prospecting Licence Applications which cannot be drilled until they are granted. Flinders Diamonds has been trying to expedite the granting process with approval from the Native Title claimants. It is anticipated that the tenements will be granted in the first Quarter of 2005 and will therefore be able to be drilled in the second quarter. In the meantime, work being carried out includes: re-interpretation of existing magnetic and electromagnetic surveys, new gravity surveying, photo geology, geological mapping and diamond indicator mineral sampling.

In August, 22 lines of reconnaissance gravity surveying were carried out in the Hamersley (10), Mulga Downs (4), Bold Cliff (4) and Elvire (4) exploration licences. An interpretation has been carried out and surface sampling of gravity features of interest is being carried out in October. Diamond indicator mineral samples collected in August from Mulga Downs and Bold Cliff have produced encouraging results containing pyrope garnet, microilmenite and enstatite, all suggesting the presence of undiscovered kimberlite. Synthesis of the results of all this work will aid in selection of targets for testing by core drilling in 2005.

Twin Swamps Project

FDL has been ready to drill several targets at Twin Swamps since December 2003, but has been delayed by a long wet season. In mid 2004, the swamps were still waterlogged and drilling has been delayed until there is a safe dry surface, probably next summer.

CORPORATE

The Company's former Chairman, Mr Patric Barry, originally called a shareholders' meeting in August 2002, proposing to remove two existing Directors and replace them with three of his nominees. A summary of the subsequent Supreme Court case was provided in the June 2004 Quarterly Report. The shareholders' meeting was eventually held on 20 August 2004, and resulted in the defeat of Mr Barry's resolutions by margins of approximately 58.4 million votes to 22.8 million votes. Over 500 shareholders voted, but apart from the votes of Mr Barry, Tiger International Resources Inc (Tiger) and a former Director, Mr Peter Taylor, only 19 shareholders (representing 0.4% of the votes cast) were in favour of Mr Barry's resolutions. At the time the Chairman, Mr Robert Kennedy, made the following statement before closing the meeting:

"I take this opportunity to thank shareholders for the mandate they have given the Board today. Shareholders can rest assured your Board will continue to focus on the diamond exploration program which we hope will result in finding a commercial diamond mine. I would also like to thank the staff and consultants to the Company, who have kept a remarkable focus on the exploration program while these matters were being dealt with."

In an announcement dated 20 October 2004, Flinders Diamonds Limited (FDL) reported that Mr Patric Barry had ceased to be a shareholder of the Company with the recent disposal of his 4,000,000 shares in the Company.

The payment of costs awarded to FDL in relation to the Supreme Court case referred to above have been agreed between the parties for the sum of A\$200,000, payable by Tiger and Mr Barry within 60 days of August 10 2004. This date has since been extended for a further 60 days to 10 December 2004, by order of the court.

Finance

On 30 September 2004, the company had available funds of \$0.81 million. Exploration expenditure by the company during the September quarter was \$516,000 and forecast expenditure for the December quarter is \$450,000.



Dr Kevin JA Wills
Managing Director

29 October 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 1300 559 564 or 0419 850 997.

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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")

30 SEPTEMBER 2004

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	0	0
1.2 Payments for		
(a) exploration and evaluation	(664)	(664)
(b) development	0	0
(c) production	0	0
(d) administration (Note 6)	(219)	(219)
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	23	23
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid	0	0
1.7 Other (Note 6)	(40)	(40)
Net Operating Cash Flows	(900)	(900)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	0	0
(b) equity investments		
(c) other fixed assets	(3)	(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	(3)	(3)
1.13 Total operating and investing cash flows (carried forward)	(903)	(903)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(903)	(903)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	0	0
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)	0	0
	Net financing cash flows		
	Net increase (decrease) in cash held	(903)	(903)
1.20	Cash at beginning of quarter/year to date	1,713	1,713
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	810	810

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	73
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 \$72,550 at 1.23 comprises directors fees – R M Kennedy (\$18,750) E J Vickery (\$5,838), Salary payments to K J A Wills (\$34,662), and consulting payments to related corporations of directors – M R Billing – alternate for Dr. Wills (\$13,300)

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	450
4.2 Development	0
Total	450

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	110	313
5.2 Deposits at call	700	1,400
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	0
Total: cash at end of quarter (item 1.22)	810	1,713

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	Beneficial	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	127,850,956	N/A	Fully Paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
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 2,850,000 63,924,978	16,655,686	<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				
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 **28 October** 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 \$65,000 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.