

Directors Report

The Directors of Flinders Diamonds Limited submit the half-year financial report for the period ended 31 December 2003 and report as follows:

Review of Operations

Operations during the December half of 2004 can be divided into two periods relative to the Company's Rights Issue. Pre mid October, when the issue closed, activities focussed on preparation for the issue, marketing of the issue and preparation for a series of exploration target testing programs. After mid October emphasis turned to field activities to test a total 11 Kimberlite Pipe Targets by the drilling of 41 holes totalling 2475 metres and the excavation of 21 trenches.

In South Australia activities were concentrated in the Springfield and Adelaide Hills Projects. At Springfield drill holes, which had been proposed in the Company's Prospectus were completed to test kimberlite targets under the Boolcunda and Springfield Basins. These targets proved negative and attention turned to the Eurelia area of the Springfield Project. Here, 13 of 16 drill samples were positive for kimberlitic indicator minerals. A review of Springfield Project data concluded that future attention should be focussed at Eurelia where a number of previously unsampled diamondiferous kimberlite dykes are suspected.

In the Adelaide Hills, samples in the Echunga and Lyndoch areas located positive indications of kimberlites in areas where previous sampling was either negative or had not been carried out.

Exploration in the Northern Territory included the drilling of two diamond drill holes to obtain drill core for sizing analysis at the Bleechmore Vermiculite prospect. These holes demonstrated the presence of coarse vermiculite zones of up to 36 metres true width and significantly increased the Company's geological understanding of the Bleechmore Prospect.

Late in the previous half-year the Company had increased its exposure to prospective diamond terrain in Western Australia and therefore, in the December 2003 half, activities were able to be undertaken at Skeleton Flat, Twin Swamps and Hamersley. At Skeleton Flat, 21 trenches were excavated to test a number of anomalies. One target (A) was tested with negative results and bedrock was deeper than the excavator could reach at the others, which will need drill testing in 2004.

At Twin Swamps, a high resolution airborne magnetic survey was flown and a heritage clearance survey undertaken in preparation for drilling in the first half of 2004.

Work on the Hamersley project mainly involved the treatment of remaining drill samples from previous exploration in 1999 and 2002 with a new iron dissolution technique. Two diamonds and a variety of kimberlitic indicator minerals were recovered. The chemistry of the indicator minerals indicated a high diamond potential in their source kimberlites.

The net result of operations for the half-year was a loss after income tax of \$465,804 (2002:\$566,760).

Corporate

A non-renounceable rights issue to all shareholders closed fully subscribed, with the issue of 63,924,978 fully paid shares and options, raising approximately \$3.2million.

Following the findings in the Supreme Court of SA in June 2003, which favoured Flinders Diamonds Limited, the defendants lodged an appeal in July 2003. The hearing of the appeal concluded on 2nd December 2003. The outcome is awaited. Subsequently the Supreme Court of SA has determined that the shares vested in the Australian Securities and Investments Commission should not be sold until 28 days from the date of handing down the appeal decision. ASIC will then have 6 months to dispose of the shares.

Directors

The names and particulars of the Directors of Flinders Diamonds Limited during the half year and at the date of this report are:

Robert Michael Kennedy ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, FAIM, FAICD
Non Executive Chairman

Kevin John Anson Wills ARSM, Ph.D., F. AusIMM
Managing Director

Ewan John Vickery LLB, MAICD
Non-Executive Director

Michael Robert Billing ASA
(Alternate for Dr Wills)

Dated at Adelaide this 5th day of March 2004, and signed in accordance with a resolution of the Directors.



R M Kennedy
Director



K J A Wills
Director

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes as set out on pages 3 to 7 are in accordance with the Corporations Act 2001, and;
 - (a) comply with Accounting Standards AASB1029: Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the entity's financial position as at 31 December 2003 and its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



R M Kennedy
Director



KJA Wills
Director

Dated this 5th day of March 2004

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

STATEMENT OF FINANCIAL PERFORMANCE**FOR THE HALF-YEAR ENDED 31 DECEMBER 2003**

	Note	Half-year Ended 31 December 2003 \$	Half-year Ended 31 December 2002 \$
Revenues from ordinary activities		35,586	56,232
Expenses from ordinary activities			
Exploration Expenses		(91,963)	(50,275)
Audit and Accounting Fees		(2,524)	(8,597)
Depreciation Expense		(7,284)	(4,116)
Directors' Remuneration		(130,405)	(137,405)
Share Registry & ASX Fees		(50,821)	(16,074)
Company Promotion		(1,309)	(600)
Salaries and Wages		(86,749)	(75,680)
Office Expenses		(30,661)	(28,256)
Other Administrative Expenses		(12,473)	(26,382)
Net loss from ordinary activities before income tax expense		(378,603)	(291,153)
Income tax expense relating to ordinary activities		-	-
Loss from ordinary activities after related income tax expense		(378,603)	(291,153)
Loss from extraordinary items before income tax	5	(87,201)	(275,607)
Income tax expense relating to extraordinary activities		-	-
Loss from ordinary activities and extra ordinary items after related income tax expense		(465,804)	(566,760)
Basic earnings (loss) per share		(0.0056)	(0.0098)

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2003

	31 December 2003 \$	30 June 2003 \$
CURRENT ASSETS		
Cash assets	2,561,628	600,445
Receivables	53,137	5,864
Total Current Assets	<u>2,614,765</u>	<u>606,309</u>
NON-CURRENT ASSETS		
Exploration & Evaluation Expenditure	4,075,308	3,271,749
Plant and Equipment	70,100	77,670
Total Non-Current Assets	<u>4,145,408</u>	<u>3,349,419</u>
TOTAL ASSETS	<u>6,760,173</u>	<u>3,955,728</u>
CURRENT LIABILITIES		
Payables	171,363	140,316
Provisions	14,962	12,969
Total Current Liabilities	<u>186,325</u>	<u>153,285</u>
NON-CURRENT LIABILITIES		
Provisions	12,613	8,129
Total Non-Current Liabilities	<u>12,613</u>	<u>8,129</u>
TOTAL LIABILITIES	<u>198,938</u>	<u>161,414</u>
NET ASSETS	<u>6,561,235</u>	<u>3,794,314</u>
EQUITY		
Contributed equity	8,477,579	5,244,855
Retained losses	(1,916,344)	(1,450,541)
TOTAL EQUITY	<u>6,561,235</u>	<u>3,794,314</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2003

	Half-year Ended 31 December 2003 \$	Half-year Ended 31 December 2002 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(405,881)	(418,667)
Interest received	26,483	46,873
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Net cash used in operating activities	(379,398)	(371,794)
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CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for mining tenements, exploration and evaluation expenditure	(891,520)	(701,958)
Payments for property, plant and equipment	(622)	(4,695)
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Net cash used in investing activities	(892,142)	(706,653)
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CASH FLOWS FROM FINANCING ACTIVITIES		
Loans	-	-
Issue of shares	3,232,723	-
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Net cash provided from financing activities	3,232,723	-
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Net increase (decrease) in cash held	1,961,183	(1,078,447)
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Cash at 1 July 2003	600,445	2,657,101
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Cash at 31 December 2003	2,561,628	1,578,654
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The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2003

1. BASIS OF PREPARATION OF ACCOUNTS

This half-year financial report has been prepared in accordance with the Corporations Act 2001 and AASB 1029 and is to be read in conjunction with the financial report for the year ended 30 June 2003. It is a general purpose financial report.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted in the 2003 annual report.

2. CONTINGENT LIABILITIES

The company is engaged in legal proceedings against Mr Patric Barry, Tiger International Resources Inc, Mr Anthony Campbell, Campbell Corporation Pty Ltd, and Balance Tax Pty Ltd in connection with alleged breaches of the Corporations Act 2001. The Supreme Court of SA held in favour of the company in June 2003, however the matter has gone to appeal. In the event that the appeal is successful on all points, the company could be liable to pay the appellants costs of the proceedings and the appeal, estimated to be no more than \$100,000

Other than the above there were no changes in contingent liabilities from those disclosed in the annual report for the year ended 30 June 2003.

3. CONTINGENT ASSETS

In the Supreme Court proceedings referred to above under Contingent Liabilities, the Court ordered that the defendants pay a proportion of the Company's costs of the action, estimated to be approximately \$250,000. The Company has withdrawn its appeal seeking a full indemnity for its costs of the action, however additional costs have been incurred in relation to the appeal by the defendants. In the event that the appeal is not successful the company should recover in excess of \$300,000.

4. SEGMENT INFORMATION

The company operates predominantly in the mining industry, in Australia.

5. EXTRAORDINARY ITEMS

Legal expenses associated with the costs of the legal proceedings against Mr Patric Barry, Tiger International Resources Inc, Mr Anthony Campbell, Campbell Corporation Pty Limited and Balance Tax Pty Ltd in connection with alleged breaches of the Corporations Act 2001 have been classified as Extraordinary Items in this report.

INDEPENDENT REVIEW REPORT

TO THE MEMBERS OF

FLINDERS DIAMONDS LIMITED ACN 091 118 044

Scope

We have reviewed the financial report of Flinders Diamonds Limited for the half year ended 31 December 2003, consisting of the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes, and the director's declaration as set out on pages 3 to 7. The company's directors are responsible for the financial report. We have conducted an independent review of this financial report in order to express an opinion on them to the members of the company.

Our review has been conducted in accordance with Australian auditing standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that make us believe that the financial report, as defined in the scope section of this report, of Flinders Diamonds Limited is not in accordance with:

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2003 and of its performance for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB1029 'Interim Financial Reporting' and the Corporations Regulations 2001; and
- b) Other mandatory professional reporting requirements.



PKF
Chartered Accountants



P J Whelan
Partner

Signed in Adelaide, South Australia this 8th day of March 2004.