



Quarterly Report

Period ending 31 December 2002

Highlights

Flinders Diamonds Limited (FDL) completed its most active quarter since listing with encouraging results from the four projects explored. Direct exploration expenditure by FDL and its co-venturers was \$522,000 - an annualised rate of over 2 million dollars. Exploration completed included:

- Drilled 132 holes totalling 3,742 metres
- Tested 18 potential kimberlite targets
- Collected 153 kimberlitic indicator mineral samples
- Returned 30 positive kimberlitic indicator anomalies from the 72 results received to date

Springfield (SA)

- Kimberlite indicators from undercover drill samples at Eurelia indicate potential for discovery of kimberlite pipes
- High-resolution airborne magnetic survey currently being flown at Eurelia
- Drilling of Springfield under basin hole to commence in mid February

Adelaide Hills (SA)

- Eleven positive indicator mineral results have defined an anomalous ten kilometre drainage trail in the Onkaparinga valley north of Echunga
- Kapunda exploration licence offered and accepted for grant - contains the Angaston Kimberlite and a possible 9mm by 5mm diamond near Kapunda
- Nearly 200 airborne magnetic anomalies have been identified from recent South Australian Exploration Initiative surveys and are being assessed in the field

G2 Project (SA)

- Twelve positive kimberlitic indicator results from 29 drill holes tested give strong encouragement from the first pass drilling program

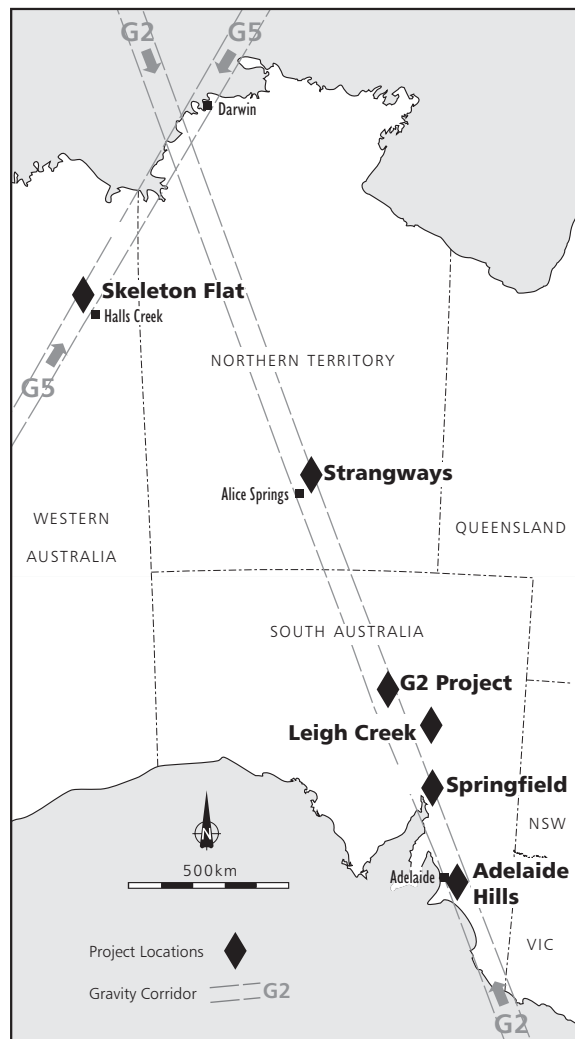


Figure 1 Project locations.

Strangways (NT)

- Significant area of new carbonatite discovered in Mt Bleechmore area
- Potential recognised for a commercial vermiculite deposit or phosphate and rare earth mineralisation

website: www.flindersdiamonds.com

EXPLORATION ACTIVITIES REVIEW

FDL achieved a high level of exploration activity at the four projects it has recently explored. This can be demonstrated by reference to the following statistical summary for the December quarter, 2002:

| project | no of holes drilled | no of metres drilled | situations trench excavated | kimberlite targets tested | indicator samples collected | results received to date | positive results to date |
|----------------|---------------------|----------------------|-----------------------------|---------------------------|-----------------------------|--------------------------|--------------------------|
| Springfield | 19 | 1,031 | 3 | 10 | 101 | 22 | 6 |
| Adelaide Hills | - | - | 23 | - | 22 | 17 | 11 |
| G2 | 65 | 1,690 | - | - | 29 | 29 | 12 |
| Strangways | 48 | 1,021 | - | 8 | 4 | 4 | 1 |
| Totals | 132 | 3,742 | 26 | 18 | 156 | 72 | 30 |

FDL's strategy is to continue with an active and cost-effective exploration program, believing that effective work on prospective targets will lead to exploration success.

SOUTH AUSTRALIA

Springfield Joint Venture

December quarter 2002 exploration on the Springfield Project was the most active period of target testing on this project area since the 1980's. Ten potential kimberlite targets were evaluated by trenching and drilling. A variety of drilling techniques was used with a total of 1,031 metres completed. At eight of the targets, non-kimberlitic basement was intersected. However, basal gravel samples at several targets returned positive kimberlitic indicator results with fresh textures reinforcing the potential for kimberlites in the vicinity. At the deep target under the Boolcunda Basin, difficulties were experienced keeping the hole vertical and the hole was abandoned in order to re-drill with a more suitable drill rig.

At the Adelaide Hills Project work mainly involved new trenching of both Tertiary gravels and gravels from modern drainages with a number of positive kimberlitic indicator results being returned. An assessment of recent airborne magnetic data for potential kimberlite targets produced nearly 200 anomalies. Ongoing assessment of interesting anomalies is expected to lead to additional kimberlite drill targets.

Differences in interpretation of the Joint Venture agreement between FDL and the Initial Licence Holders (ILH) were not resolved during the quarter. The appointment of a third arbitrator is awaited. In the meantime FDL is continuing with its exploration program.

Springfield Project

In October 2002, three KA series kimberlite targets were tested by trenching with an excavator. These were KA 12A, 12B and 113 shown on Figures 2 and 3a. These

targets contained on-source indicator mineral results together with magnetic anomalies and topographic depressions. Thirty pits were excavated at the three targets. Basement was intersected in all trenches but

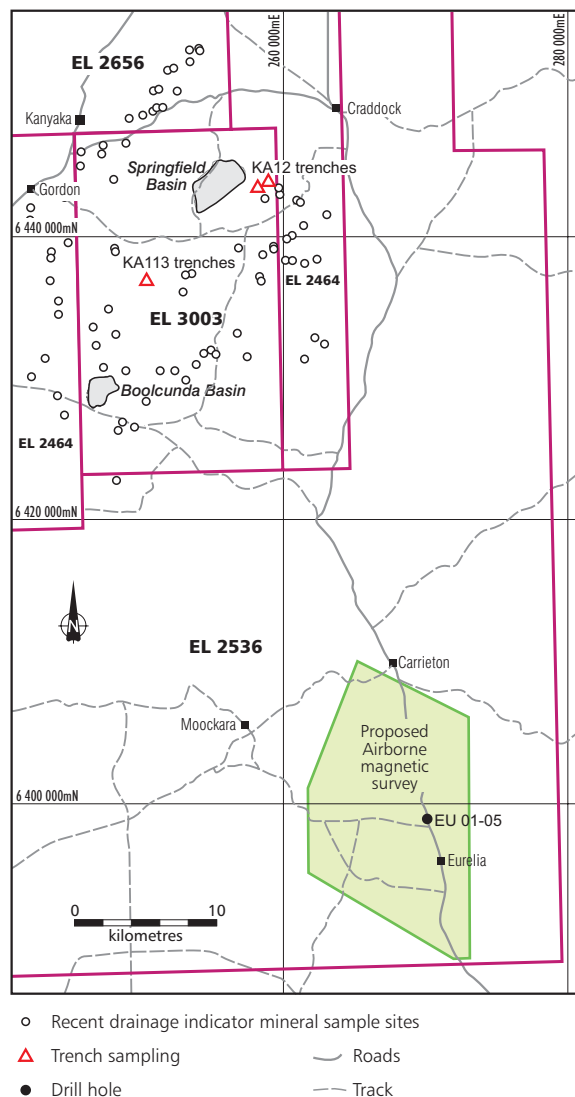


Figure 2 Part of Springfield Project Area showing recent activities.

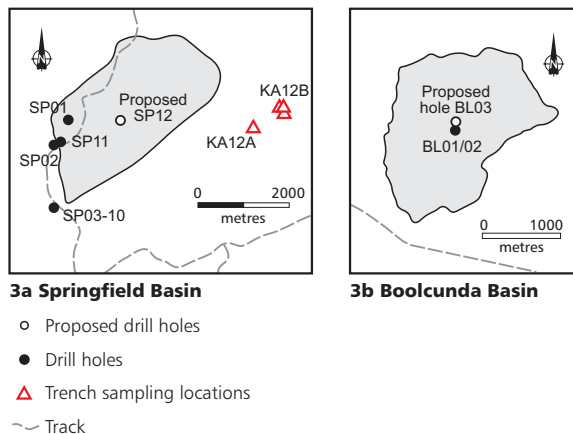


Figure 3 Springfield and Boolcunda Basins showing recent drilling and trench sampling.

was not kimberlitic. A composite sample from gravels in the KA 113 trenches recorded anomalous indicator results which suggest the kimberlite source is further upstream.

Between the 8 and 27 November, a further seven kimberlite targets were drill tested by seventeen drill holes for a total of 1,031 metres. The targets can be sub-divided into three groups:

- 1) deep holes to test for two targets under the Springfield and Boolcunda Basins,
- 2) shallow holes to test three targets in or near the Springfield Basin and
- 3) shallow holes to test two target areas at Eurelia.

The deep holes to test for kimberlites under the Springfield (SP12) and Boolcunda (BL01) Basins are shown on Figure 3. Both were abandoned due to excessive deviation. As the Springfield Basin deep hole, SP12, also encountered drilling difficulties, it was decided to delay the Springfield deep drilling until a more suitable rig was available. FDL has fortunately obtained the services of Walsh Drilling Pty Ltd who specialise in deep percussion holes and will commence the deep holes at Springfield and Boolcunda in mid February.

Three targets were tested by 11 shallow holes near the Springfield Basin as shown on Figure 3a. These were:

- 1) A conceptual hole suggested by the Initial Licence Holders drilled as SP01 to 115 metres. This hole intersected a coarse basal conglomerate before passing into Proterozoic siltstone basement.
- 2) Two aircore holes SP02 and SP11 were drilled near previous holes SF001 and SF146 which had intersected anomalous levels of niobium and zirconium possibly indicating the proximity to

kimberlite. Both new holes intersected Springfield Basin sediments overlying Proterozoic siltstone basement.

- 3) Eight shallow aircore holes (SP03 to 10) were drilled in the T48 area where previous work had located abundant kimberlitic indicators and niobium anomalies. These holes averaged only 4.8 metres each and each intersected Proterozoic siltstone basement.

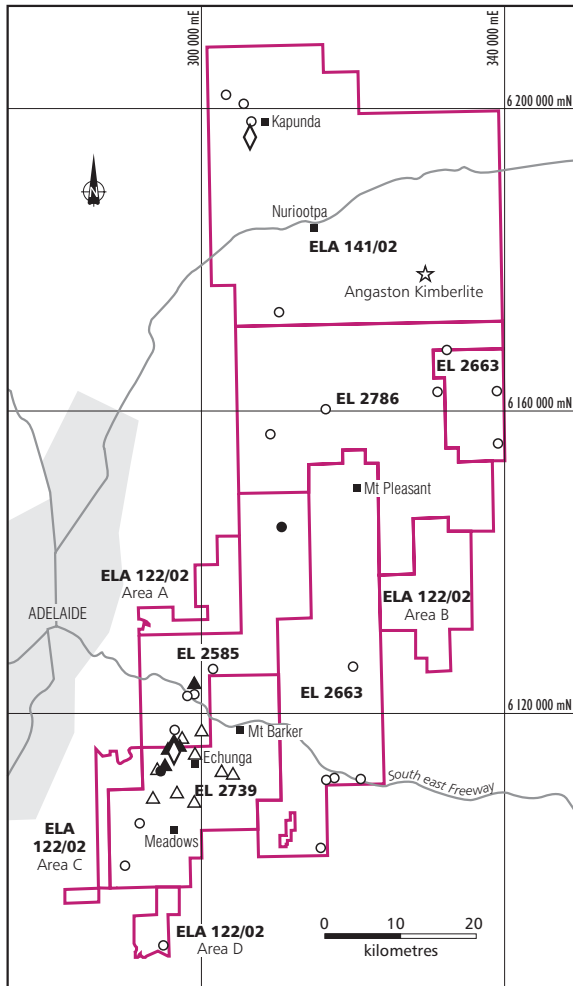
None of the 11 holes near the Springfield Basin intersected any kimberlitic rocks.

Five aircore holes were drilled to test two conceptual magnetic anomaly targets at Eurelia. Previous work at Eurelia by Stockdale Prospecting (De Beers) in the early 1980's had located a swarm of diamondiferous dykes by detailed indicator mineral sampling and ground magnetic surveying. FDL has studied Stockdale's data and concluded that there is a possibility that undiscovered diamondiferous kimberlite pipes are present at Eurelia masked by depositional regolith cover in the broad flat valleys present. FDL's drilling showed that in places this cover was up to 32 metres thick and had the potential to mask kimberlite pipes. Five indicator mineral samples were collected from gravels in these holes. Three of these returned positive results including fresh kimberlitic pyrope garnet, chromite and picroilmenite. These results add strength to FDL's proposal to fly a new high resolution airborne magnetic survey as indicated on Figure 2, and to follow this up with a detailed ground gravity survey over areas of interest. This airborne survey is being flown at the end of January.

Early in December, reconnaissance indicator mineral sampling recommenced around the Springfield Basin with 88 samples collected to date. Locations are shown on Figure 2. Many of the samples are the first collected for significant sized catchments and others are to follow up previously identified anomalies. First results were received near the end of January. A fuller assessment of the significance of this sampling will be available when all results are to hand.

Adelaide Hills Project

A program of trench sampling Tertiary conglomerates and drainage sampling in modern creeks has commenced. Historically, diamonds have been located from Tertiary gravels mined for alluvial gold at Echunga. FDL's aim was to resample Tertiary gravels from the Echunga area to try to develop an exploration method



- ▲ Trench in Tertiary sediments - positive results
- △ Trench in Tertiary sediments - negative results
- Gravel sampling complete
- Gravel sampling in progress
- ◆ Diamond location
- ☆ Kimberlite location

Figure 4 Adelaide Hills Project Area showing recent sampling.

based on sampling of the diamond-bearing horizons. A total of 23 trenches were excavated and 20 Tertiary conglomerate samples collected as shown on Figure 4. Results have been received and 17 of the samples contained indicators, of which 11 contained grains of chromite described as probably kimberlitic. A selection of about 100 of the chromite grains are being chemically analysed by electron microprobe to determine more reliably if a kimberlitic origin is likely.

Wear characteristics on chromite grain surfaces suggest a source approximately three to six kilometres from the sample sites. Sampling has recently turned to modern creeks due to the difficulties of locating good trap sites in Tertiary conglomerates under cover. In the current program, a further 24 samples are being collected as shown on Figure 4.

The other main aspect of current exploration is an assessment of airborne magnetic anomalies that could represent kimberlites. Several anomalies have been identified during previous work, but have not been followed up in the field. Also, since the South Australian Government's airborne magnetic exploration initiative (SAEI) commenced in 1992, a large amount of new data has become available and this has now been examined for potential kimberlite magnetic anomalies. Nearly 200 anomalies have been identified to date and these are currently being field checked. Ongoing assessment of interesting targets is expected to lead to additional kimberlite drill targets.

During the quarter, FDL accepted an offer of grant from PIRSA for ELA 141/02, Kapunda. When granted, this licence will add a further 1,211 square kilometres to the Adelaide Hills Project area which will then total 3,678 square kilometres. The Kapunda licence contains a known non-diamondiferous kimberlite at Angaston located by CRA Exploration and a large (9mm by 5mm) diamond also reported by CRA Exploration near Kapunda. CRA was concerned that the diamond may have resulted from contamination. One of FDL's immediate tasks will be to resample major drainages upstream of the diamond location in an effort to prove or disprove the presence of diamonds in this area.

Lobethal Joint Venture

In the Lobethal Joint Venture with AKD Limited and Statalink Holdings Pty Ltd on EL 2585, shown on Figure 4, FDL is earning 51% equity by the expenditure of \$500,000. Work in the quarter was similar to that in the Adelaide Hills Project with trench sampling of Tertiary gravels and commencement of selected modern drainage samples elsewhere. A total of three Tertiary gravel samples and one modern drainage sample were collected. Results for these samples indicate the presence of probably kimberlitic chromite grains that have travelled approximately 3 to 6 kilometres from source. Selected grains are being chemically analysed by microprobe to obtain more information on their likely geological source rock type. A detailed reassessment of airborne magnetic data has resulted in prioritisation of magnetic anomalies for kimberlites and field follow up has commenced.

G2 Project

Results from the October 2002 drilling program at G2 were returned during January 2003. Of the 29 holes where samples were collected, 12 gave positive

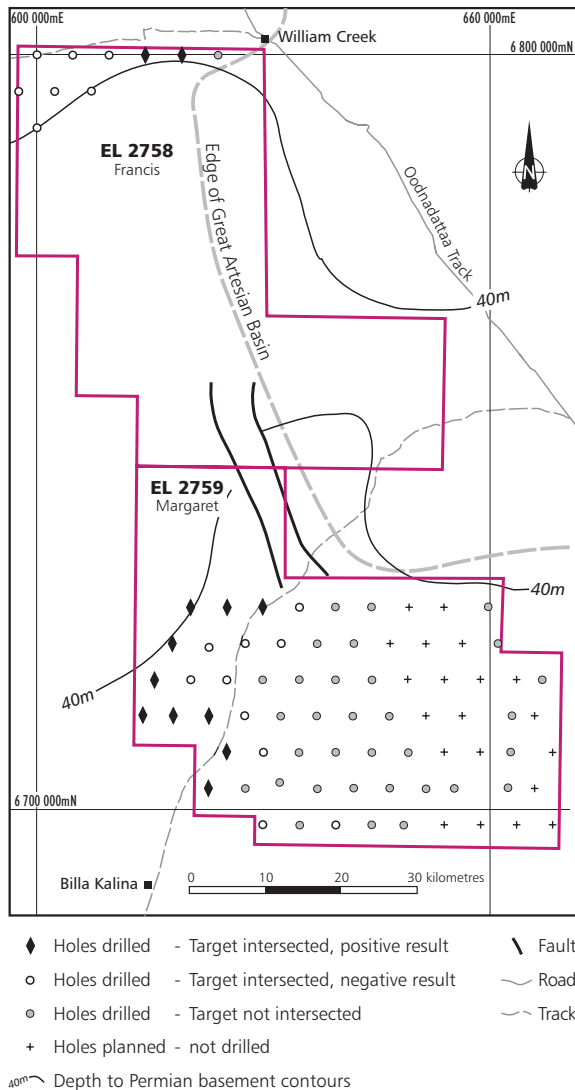


Figure 5 G2 Project drilling activities.

kimberlitic indicator results. Three holes contained single grains of kimberlitic pyrope garnet and nine holes contained chromite variously described from probably kimberlitic to not kimberlitic. Microprobe analysis of these grains will provide better evidence of the kimberlitic or non-kimberlitic nature of the anomalies. This result from FDL's first pass drilling at G2 provides significant encouragement that application of the undercover drilling technique has the potential to lead to undiscovered kimberlites whose presence has long been suspected in this area.

Results are presented on Figure 5, which illustrates the two areas of positive results where follow up exploration is justified. As well as infill drilling, consideration is being given to covering these areas with detailed airborne magnetics and a ground gravity survey. Figure 5 also shows those parts of the G2 Project area that have been recently voluntarily relinquished due to the lack of

the appropriate target horizon and the presence of the Great Artesian Basin which makes drilling difficult.

NORTHERN TERRITORY
Strangways Project

Results of the November RAB drilling program are now available and have been assessed. The program led to the discovery of a significant new area of carbonatite intrusives with high potential for deposits of vermiculite, phosphate and rare earth mineralisation. By demonstrating the further presence of deep mantle tapping magmas near the intersection of the transcontinental G1, G2 and G3 gravity corridors, the potential of the area to also host undiscovered diamondiferous kimberlites has also been enhanced.

FDL has until recently been involved in a joint venture with the Teck Cominco / BHP Billiton Alliance on the Strangways Project area. The Alliance was exploring for base metal and gold mineralisation in the metamorphic rocks of the Strangways Ranges. On 15 January 2002, FDL was advised that the Alliance was withdrawing from the Joint Venture based on the lack of encouragement from the completed work program on the project area.

A 48 hole RAB drilling program totalling 1,021 metres was completed over six days between the 17 and 22 November, 2002. Results are depicted on Figures 6 and 7. The thirteen holes drilled to test dipolar magnetic

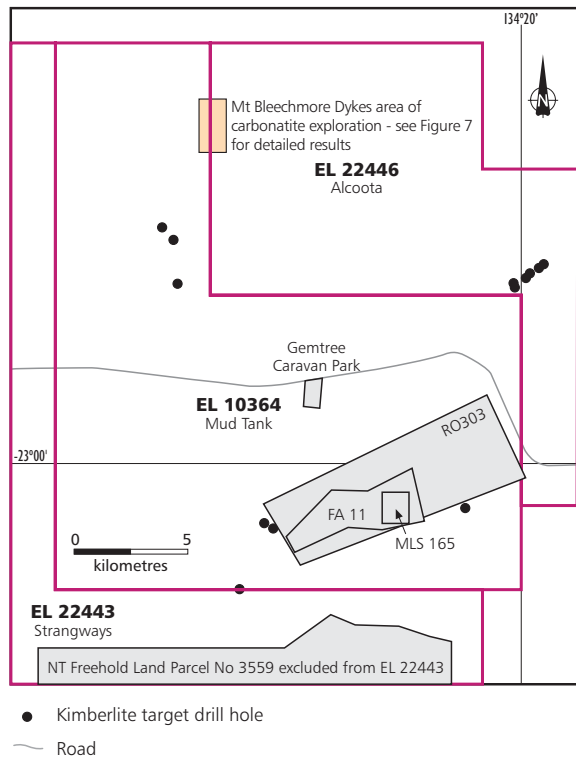
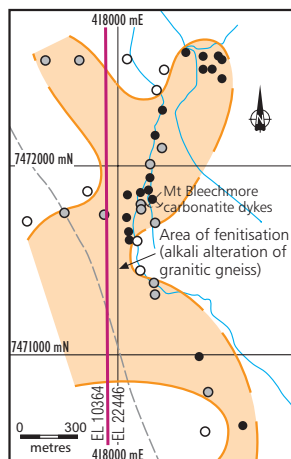


Figure 6 Strangways - location of drill holes



- Drill hole location
- Holes which intersected fenites
- Holes which intersected carbonatite
- Track
- Creek

Figure 7 *Strangways - location of drill holes and new carbonatite.*

Twelve of these holes intersected parts of previously undiscovered carbonatite intrusive rocks and a further 16 intersected granitic and biotite gneiss containing anomalous rare earth elements. The process of alkali metasomatism of gneiss in the aureoles of carbonatite intrusives is called fenitisation and the current distribution of carbonatites and fenites is shown on Figure 7. This clearly shows that the extent of new carbonatites has not yet been defined. Several holes contain over 50 metres of visually massive vermiculite which may be of commercial interest in its own right. Carbonatites are also often associated with deposits of rare earths, phosphate and sometimes base metals. FDL is currently planning the next stage of exploration in the Mt Bleachmore area.

WESTERN AUSTRALIA

Skeleton Flat Project

FDL received notification that EL 80/2057 (Skeleton Flat) was granted on 10 October for a term of five years. Consultant geologist Mr Les Field commenced activities by designing a program to initially test the principal target area for kimberlite prior to Christmas, 2002. It was known that this time of the year in the Kimberley was not ideal for fieldwork and the early onset of the wet season cut access to the project area. Exploration is now planned to commence at the completion of the wet season, probably in April 2003.

anomalies under cover for kimberlite are shown on Figure 6. Unfortunately none of these holes intersected kimberlite, though several recorded rare earth element anomalism which is indicative of the widespread alkali metasomatism in the area associated with carbonatite intrusion.

The remaining 35 drill holes were drilled in the vicinity of the Mt Bleachmore carbonatite dykes with locations shown on Figure 7.

CORPORATE

In the proceedings brought by Flinders Diamonds Limited ("FDL") against Patric Barry ("Barry"), Tiger International Resources Inc ("Tiger") and others concerning the requested General Meeting to change the constitution of the Board of Directors, the Supreme Court of South Australia on 16 December 2002 ordered, that until further order: Tiger, Barry, Anthony Campbell, Campbell Corporation Pty Ltd and Balance Tax Pty Ltd not sell or deal with the shares held by them in FDL.

On 23 December in the Supreme Court, FDL consented to a variation of the injunction made on 16 December 2002, to allow Balance Tax Pty Ltd to sell 100,000 shares in FDL on the Australian Stock Exchange Ltd. Any sales were to be on arms length terms but not to an associate (as defined in the Corporations Act) of any of the defendants in the action.

The trial concluded on 23 December and the Supreme Court had indicated judgement would be delivered in or about the middle of January. To date, judgement in these proceedings has not been delivered.

In the meantime, Tiger and Barry have applied to the court for an extension of time by which they were to have provided their written submissions. In the interests of having these proceedings resolved as soon as possible, FDL is opposing the application.

FINANCE

As at 31 December 2002, the Company had available funds of \$1.56 million. Exploration expenditure by the Company during the December quarter was \$473,000 and forecast expenditure for the March quarter is \$400,000. Exploration expenditure during the quarter by co-venturers was \$49,000.

Dr Kevin JA Wills
Managing Director

31 January 2003

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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TABLE 1 FLINDERS DIAMONDS LIMITED TENEMENT SCHEDULE AS AT 29 JANUARY 2003

| PROJECT | TENEMENT NUMBER | TENEMENT NAME (LOCATION) | AREA (sq km) | REGISTERED HOLDER/APPLICANT | FDL'S INTEREST % |
|--|-----------------|--------------------------|--------------|--------------------------------------|--------------------------------|
| SOUTH AUSTRALIA | | | | | |
| Adelaide Hills | EL 2585 | Lobethal | 341 | AKD Ltd & Statelink Holdings Pty Ltd | FDL earning 75% |
| Adelaide Hills | EL 2663 | Kanmantoo | 685 | Kelaray Pty Ltd and ILH | FDL 75% of diamond rights only |
| Adelaide Hills | EL 2739 | Echunga | 385 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Adelaide Hills | EL 2786 | Mt Pleasant | 719 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Adelaide Hills | EL 3057 | Mt Barker | 337 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Adelaide Hills | ELA 141/02 | Kapunda | 1,211 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Adelaide Hills 5 ELs, 1 ELA | | Total area 3,678 | | | |
| Springfield | EL 3003 | Springfield | 340 | ILH | FDL 75%, ILH 25% |
| Springfield | EL 2656 | Kanyaka | 297 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Springfield | ELA 143/02 | Glen Oak | 592 | ILH | FDL 75%, ILH 25% |
| Springfield | EL 2738 | Partacoona | 12 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Springfield | EL 2535 | Willochra | 1,466 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Springfield | EL 2536 | Gilbert Hill | 2,345 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Springfield | EL 2718 | Quorn | 470 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Springfield | EL 2868 | Radford Creek | 352 | ILH | FDL 75%, ILH 25% |
| Springfield | ELA 123/02 | Wonoka | 316 | Flinders Diamonds Limited | FDL 75%, ILH 25% |
| Springfield 7 ELs, 2 ELAs | | Total area 6,190 | | | |
| Leigh Creek | EL 2770 | Tom Hill | 226 | Flinders Diamonds Limited | 100% |
| Leigh Creek | EL 3052 | Copley | 11 | Flinders Diamonds Limited | 100% |
| Leigh Creek 2 ELs | | Total area 237 | | | |
| G2 | EL 2758 | Francis | 1,993 | Flinders Diamonds Limited | 100% |
| G2 | EL 2759 | Margaret | 2,076 | Flinders Diamonds Limited | 100% |
| G2 2 ELs | | Total area 4,069 | | | |
| NORTHERN TERRITORY | | | | | |
| Strangways | MCS 227 | Johnnies Reward MC | 17.5 Ha | Flinders Diamonds Limited | 100% ¹ |
| Strangways | ELA 23592 | Johnnies Reward | 72.50 | Flinders Diamonds Limited | 100% ¹ |
| Strangways | EL 10364 | Mud Tank | 302 | Flinders Diamonds Limited | 100% ¹ |
| Strangways | EL 22443 | Strangways | 973 | Flinders Diamonds Limited | 100% ¹ |
| Strangways | EL 22446 | Alcoota | 218 | Flinders Diamonds Limited | 100% ¹ |
| Strangways | EL 22623 | Phlogopite | 145 | Flinders Diamonds Limited | 100% ¹ |
| Strangways | A 23714 | Mud Tank Reserve | Approx 20 | Flinders Diamonds Limited | 100% |
| Strangways 4 ELs, 1 ELA, 1 MCS, 1 A | | Total area 1,731 | | | |
| WESTERN AUSTRALIA | | | | | |
| Skeleton Flat | EL 80/2547 | Skeleton Flat | 33 | L Field & NJ Towie | FDL earning 85% |
| 25 ELs and ELAs | | Total area 15,938 | | | |

¹ The Alliance (Teck Cominco/BHP Billiton) have withdrawn from the previous joint venture on this project

Key: ILH (Initial Licence Holders) - JF Allender, AF Le Brun & Inca Resources Pty Ltd

EL - Exploration Licence

ELA - Exploration Licence Application

MCS - Mineral Claim South

A - Application for an Authority to Explore

FDL - Flinders Diamonds Limited