



Quarterly Report

Period ending 31 December 2005

HIGHLIGHTS

- At the AGM on 30 November Flinders Diamonds shareholders overwhelmingly approved the sale of non-diamond assets in three projects to Maximus Resources Limited. Consideration was 7 million shares and 3.5 million options. This means that Flinders is now the largest shareholder in Maximus owning 10.8% of its capital.
- Five new diamondiferous kimberlites were located in the Peterborough and Nackara areas of the Flinders Ranges project and an additional 4 new kimberlites were discovered in December.
- FDL's forward program will focus on kimberlite pipe targets with a new helimag survey to commence in March and bulk sampling for macrodiamonds expected to commence in July.
- A combined Rights Issue and Placement Issue to raise up to \$4.2 million if fully subscribed is being conducted in February 2006 to fund ongoing exploration.

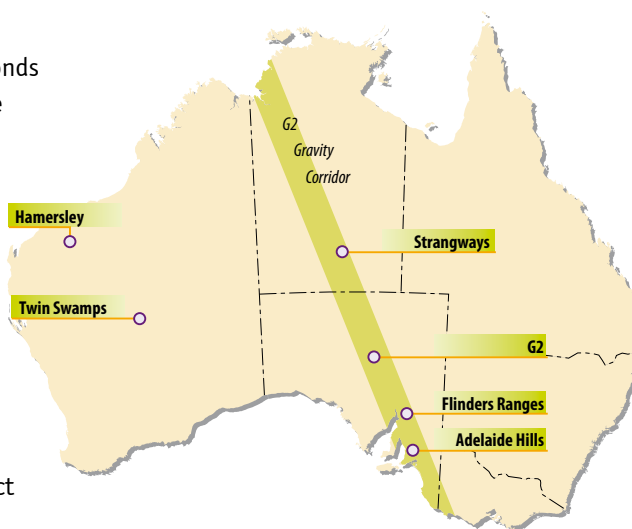


Figure 1 Flinders Diamonds Project Locations

In the Flinders Ranges project a total of 54 kimberlite bodies have now been discovered since September 2004. These are mostly dykes of between one and three metres thickness, but include several sills and pipes. Several kimberlite mines in South Africa operate on dykes of less than one metre thickness. Fifty of the new kimberlites have had 20 kilogram samples run for microdiamond with 20 positive results. To date two dykes contain macrodiamonds but little useful information can be obtained about macrodiamond content from such small samples. FDL is planning to commence bulk sampling for macrodiamonds later in the year.

2006 Exploration Program

Following the completion of the February 2006 capital raising, it is planned to carry out the following program in 2006:

EXPLORATION ACTIVITIES REVIEW

Recent Activities

The location of Flinders' exploration projects is shown on Figure 1. In the December 2005 quarter most activities were focused on the Flinders Ranges project in South Australia with a heritage clearance survey successfully completed on the Hamersley Project in Western Australia.

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- Flinders Ranges (SA) Carry out new Helimag survey, locate 100 additional kimberlites, commence bulk sampling for macrodiamonds
- Hamersley (WA) Core drilling of kimberlite targets, sampling new anomalous areas
- G2 Project (SA) Reconnaissance drilling of 50 holes to base of cover, partly funded by a PIRSA PACE grant for \$40,000
- Twin Swamps (WA) Drilling four kimberlite pipe targets

SOUTH AUSTRALIA

Flinders Ranges Project

FDL holds 100% of mineral rights in Springfield and Jamestown Projects and can purchase 100% of diamond rights in Nackara Project (Figure 2).

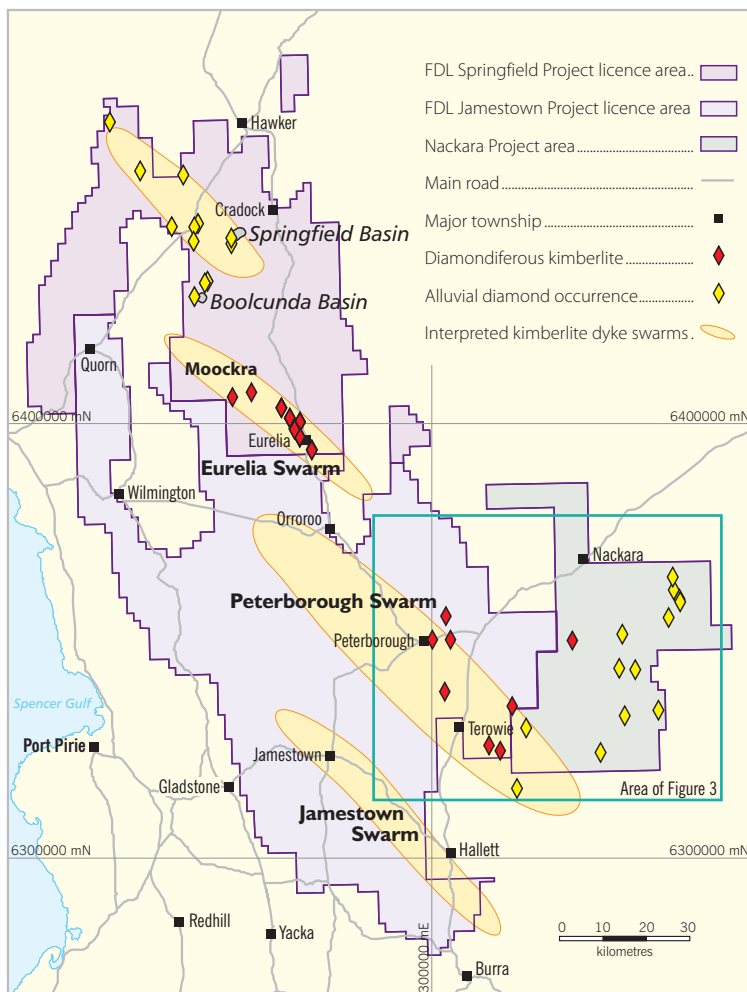


Figure 2 Flinders Ranges Project with diamondiferous kimberlite and alluvial diamond locations

New Diamondiferous Kimberlites

In November, diamond results were received on eight kimberlite samples submitted to the laboratory in August 2005. Five of these in the area southeast of Peterborough were diamondiferous (Figure 2). In December another round of trenching was carried out and a further four kimberlites located (Figure 3). These included two kimberlite dykes

and two small kimberlite pipes or blows. The samples will be sent to the laboratory in mid February when the next laboratory time is available. This brings the total number of kimberlite bodies discovered since September 2004 to 54. This is believed to be the highest rate of kimberlite discovery in Australia since the Ellendale discoveries in Western Australia in 1976.

One November result from trench 61d in the Peterborough area had five microdiamonds in a one kilogram sample. This is a potentially economic result. However, a 20 kilogram sample from the same trench had no diamonds. In order to resolve this ambiguity a further two 16 kilogram samples were run for microdiamonds. These results were also negative. At this stage it is concluded that no obvious economic potential exists for the 61d kimberlite. Some further sampling will be carried out, including some bulk sampling later in the year when a heavy media plant is available. Diamond characterisation work by nitrogen contents is being carried out at Curtin University in Western Australia to determine if diamonds found to date have a unique chemical signature.

Current Ground Magnetics Program

At the time of writing, a field team is carrying out ground magnetic surveys on the next batch of kimberlite targets to be trenched. A total of about 40 targets are being investigated including about 12 pipe-like targets. Figure 3 illustrates the large number of kimberlite targets that are being considered in the Peterborough/Nackara areas. About 150 targets have been recognised and are easier to define when interpreted from the recent Nackara helimag survey area.

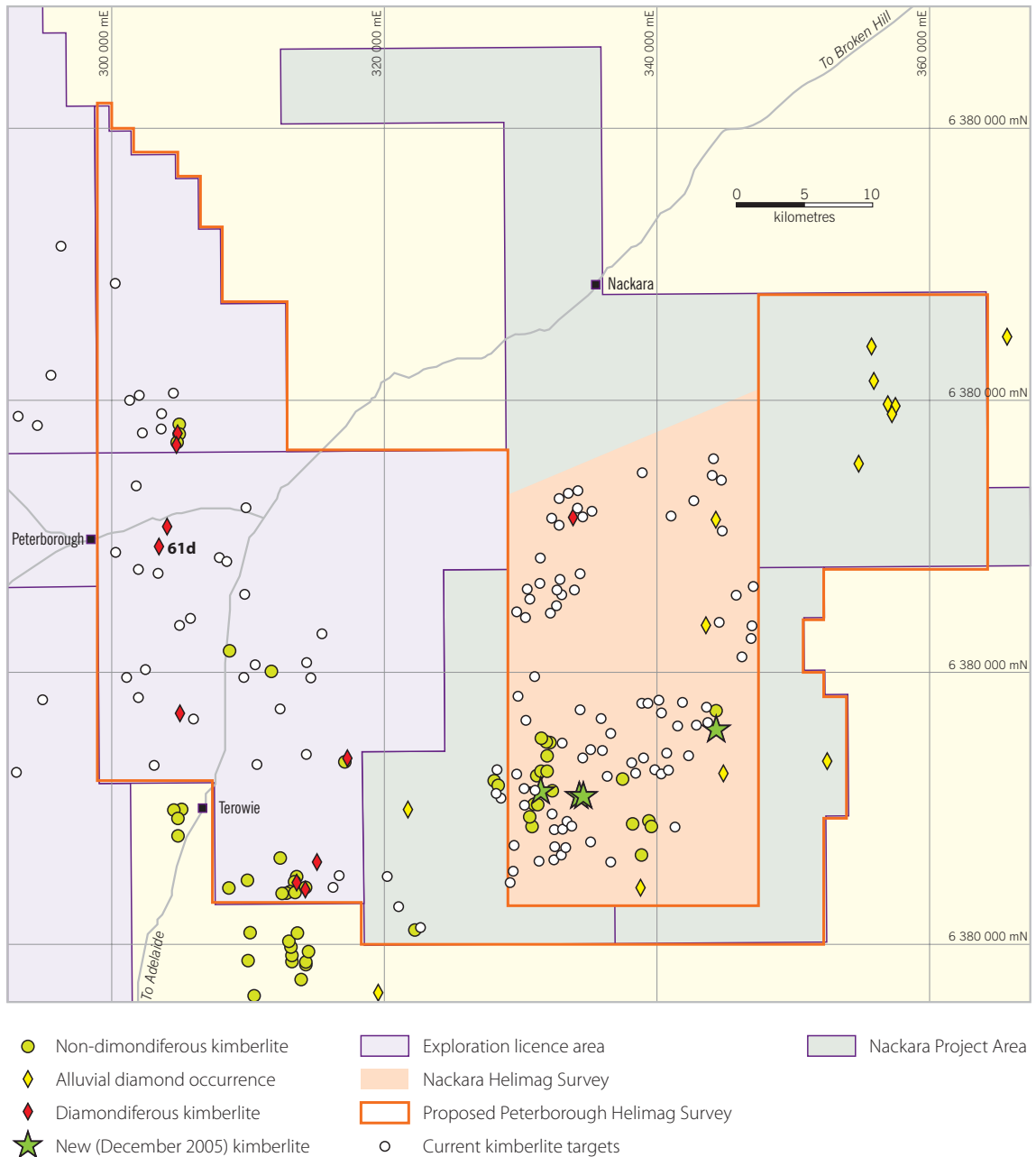


Figure 3 Kimberlites and kimberlite targets in the Peterborough and Nackara Areas showing location of Peterborough Helimag Survey

New Peterborough Helimag Survey

A new “Peterborough” helimag survey is planned to commence in late February or March as also shown on Figure 3. The new survey is expected to locate numerous additional targets, including more pipe targets, which have preferable geometries from a mining viewpoint. With the data from the new survey FDL is confident of locating at least 100 new kimberlite bodies by the middle of 2006.

ARC Linkage Research Project

During the quarter FDL joined PIRSA and Adelaide University in an application for an ARC (Australian Research Council) Linkage Project Grant to study

kimberlites in the Flinders Ranges area. The grant was approved in December and from FDL’s point of view the research will provide a large amount of geological and chemical data which will be used to try to determine the controls on kimberlite and diamond distribution in the Flinders Ranges area.

Adelaide Hills Project

FDL 100% of diamond rights

No diamond exploration was undertaken.

G2 Project

FDL 100% of diamond rights

No new work was undertaken. It is planned to carry out the next phase of reconnaissance drilling in the June quarter of 2006. PIRSA (Primary Industries and Resources South Australia) have awarded Flinders Diamonds a \$40,000 PACE grant (Plan for Accelerated Exploration) which will cover half the program's drilling costs.

NORTHERN TERRITORY

Strangways Project

FDL 100% of diamond rights

No diamond exploration activities were carried out.

WESTERN AUSTRALIA

Hamersley Project

Prenti JV, FDL earning 100%

Field activity consisted of a Heritage clearance survey and drill targets in the Hamersley and Bold Cliff exploration licences are now ready to drill during the 2006 field season.

Data packages have been exchanged as part of the data alliance agreement with De Beers. FDL is assessing the De Beers data with a view to following up positive sample locations in 2006.

Recent exploration by De Beers at their West Pilbara project was reported at the World Diamond Conference in Perth on, 22 November 2005. At their Blacktop prospect located about 120 kilometres northwest of FDL's Hamersley project area, De Beers have located a diamondiferous kimberlite dyke where (according to a Helix Resources ASX Announcement dated 10 August 2005) a total of 135 diamonds weighing 5.27 carats were recovered from a 32.85 tonne bulk sample. This prospect is being followed up under an agreement between De Beers and Tawana Resources.

FDL believes that the two microdiamonds and kimberlitic indicator minerals recovered from the 76-78 metre interval in percussion drill hole PE005 at the Caduceus target are also likely to be from a diamondiferous kimberlite dyke. It is planned to core drill this, and other targets in the Hamersley project, in the 2006 field season.

Twin Swamps Project

Prenti JV, FDL earning 100%

No exploration activities were carried out. It is anticipated that the kimberlite pipe diamond targets at Twin Swamps will be able to be drilled in the June quarter of 2006.

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 and is a competent person in the types of activities being reported.

CORPORATE

Shares in Maximus Resources Limited

Following the listing of Maximus Resources Limited on 26 October, on 30 November at a the Annual General Meeting of Flinders Diamonds, shareholders approved (by a margin of about 12 million to one million votes) the sale from Flinders to Maximus of the non-diamond rights in the Adelaide Hills, G2 and Strangways projects. Consideration for this transaction is 7 million Maximus Shares and 3.5 million Maximus Options. These securities will be held in escrow until 26 October, 2007. FDL is now the largest shareholder in Maximus Resources with 10.8% of the issued capital.

Combined Rights Issue and Placement

On 17 January the Company lodged a share issue Prospectus at ASIC. Shareholders are entitled to one new share for each share held on 25 January at a price of 1.5 cents per share. Shares may also be purchased from any shortfall to the Rights Issue or from the Placement Issue. For each new share purchased, one free FDLOA option will be issued. These options are exercisable for 10 cents at any time up to 29 September 2008. The Issue opens on 25 January and closes on 24 February, though the Company has the right to vary the closing date.

Shareholder approval is required for the placement both on 12 December 2005, and for the new issue of shares and options resulting from this Prospectus. This will be sought at an Extraordinary General Meeting scheduled for 11 am on 3 March at 140 Greenhill Road, Unley, South Australia.

If fully subscribed, the Rights Issue will raise \$3.03 million and the Placement Issue \$1.2 million. These funds will be utilised as working capital and to finance exploration and development of the Company's existing projects.

Finance

On 31 December 2005, the Company had available funds of \$0.13 million. Exploration expenditure by the company during the December quarter was \$54,000 and forecast expenditure for the March quarter 2006 is \$250,000.

Dr Kevin JA Wills
Managing Director

30 January 2006

