



FLINDERS
DIAMONDS

Australian Stock Exchange Announcement

OPTION CREATES OPPORTUNITY FOR NEW DIAMOND SOURCES

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The Manager
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HIGHLIGHTS

- Completion of Option to Purchase on Nackara Diamond Project
- Nackara Project contains 12 diamond locations, 30 kimberlites and 19 kimberlite targets
- Project contains south eastern extension of inferred Peterborough Kimberlite Dyke Swarm, recently recognised by FDL
- New focus on microdiamond determinations of previously unsampled kimberlites

Summary

Flinders Diamonds Limited (FDL) has entered an Option to Purchase Agreement on three exploration licences in the Nackara area of South Australia. The vendors, Mr John Simnovac and his companies, have been exploring the area for five years and have integrated previous exploration results to define a number of high quality diamond targets. FDL will carry out an active exploration program based on microdiamond sampling of kimberlites defined by the vendors and on FDL's own recognition of new inferred kimberlite dyke swarms.

Agreement

An Option to Purchase Agreement was executed on 30 July, to allow FDL to conduct diamond exploration on ELs 2723, 2977 and 3225 in the Nackara area, as shown on Figure 1. The agreement is with Novec Pty Ltd, Amona Mining and

Exploration Pty Ltd and John J Simnovac, relating to exploration licences 2723, 2977 and 3225 respectively. The option period is two years from 30 July 2004 with two payments each of \$50,000, due on commencement and on the first anniversary. FDL can

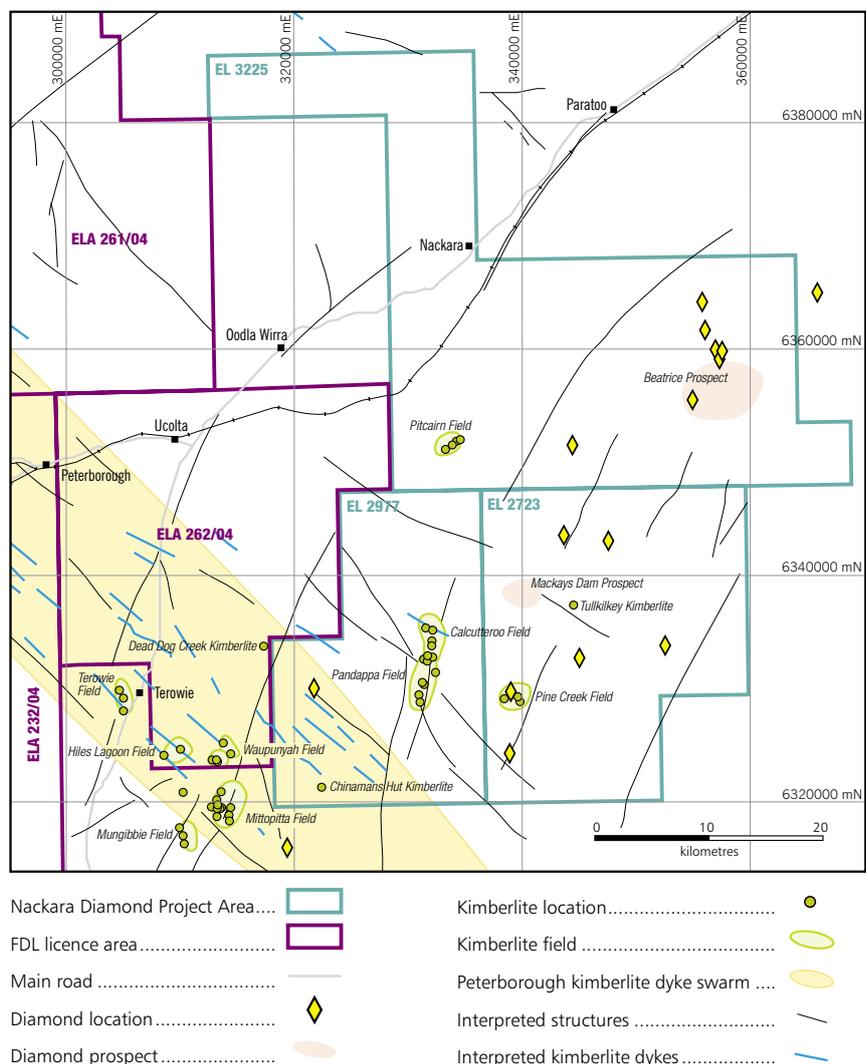


Figure 1 Nackara Diamond Project Prospectivity



Figure 2 Kimberlite exposure in the creek bank at Pitcairn. This kimberlite has unknown boundaries and has not been previously sampled for diamonds.

exercise the option for a price of \$1,000,000 at any time after commencement to own a 100% interest in ELs 2723 and 2977 and 100% of the diamond rights in EL 3225. This agreement allows FDL to explore a project area containing 12 diamond locations, 30 kimberlite bodies, 19 kimberlite targets and at least seven inferred kimberlite dykes.

Future Program

A number of target areas are outlined on Figure 1 which underscores the diamond prospectivity of the area. These will convert to exploration activities as follows:

- Attempting to locate the source of known diamonds
- Testing known kimberlites for their diamond content
- Testing identified targets for kimberlite
- Drill testing kimberlite targets defined by Mr Simnovec and others at the Beatrice Prospect.

Through the Nackara Diamond Project agreement, FDL expects to be able to test a significant number of previously unsampled kimberlites for diamonds in the coming months.

Historical Background

Early diamond exploration in the Nackara area was by Stockdale Prospecting Pty Ltd, the exploration arm of De Beers. Stockdale was active between 1969 and 1982 and located a large number of kimberlite pipes, at the time the largest collection of kimberlite pipes in Australia. A number of pipes were bulk sampled but none was found to contain commercial quantities of diamonds. CRA Exploration Pty Ltd, now Rio Tinto, worked between 1980

and 1983 while BHP Ltd explored between 1978 and 1981. BHP did locate additional kimberlite pipes but again none contained significant quantities of diamonds.

Since 1999, Amona Mining, Novac Pty Ltd, Mr John Simnovec and Mr Lindsay Curtis have been conducting diamond exploration in the project area. They have recompiled an abundance of pre-existing data and integrated it with new data from Government airborne magnetic surveys. Mr Simnovec has also carried out prospecting activities and located several new kimberlite bodies such as the one illustrated on Figure 2.

The early work by major diamond explorers tended to focus on the search for large kimberlite pipes while relatively small bodies, such as kimberlite dykes, did not receive much attention. The work was successful in locating a large number of kimberlites and diamond locations, but only at Pine Creek were two small diamonds found in kimberlite. The primary source of diamonds from the other 12 known diamond locations remains unknown. FDL has recently recognised three inferred kimberlite dyke swarms in the region. The south eastern end of the Peterborough Swarm lies in EL 2977 which is part of the current agreement (Figure 1).

Value of PIRSA Work

Exploration by the current titleholders has benefited greatly from three aspects of work by Primary Industries and Resources South Australia (PIRSA). Firstly, between 1992 and 1996 most of the project area was covered by airborne geophysical surveys as part of the South Australian Exploration Initiative (SAEI). The resulting images have enabled possible locations of kimberlite bodies to be identified in the vicinity of positive diamond indicator mineral results. Secondly, between 1998 and 2001, PIRSA geologically remapped the Burra 1:250,000 map sheet. This work has led to a much better understanding of the region's geology, and has also directly located several new kimberlites (which now need to be sampled for diamonds). Thirdly, through the Targeted Exploration Initiative (TEISA), PIRSA funded a study of the distribution of diamond indicator minerals (DIMs) in the Pine Creek Kimberlite Field which has led to a better understanding of the use of DIMs for exploration of the area.

Overall, the government initiatives have significantly assisted exploration activities in the Nackara area by making pre-competitive data available. This has led to a number of opportunities for the industry sector to follow up.

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