



FLINDERS  
DIAMONDS

## Australian Stock Exchange Announcement

### **FLINDERS DIAMONDS ENTERS ALLIANCE WITH DE BEERS ON HAMERSLEY PROJECT, WESTERN AUSTRALIA**

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The Manager  
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#### **Highlights**

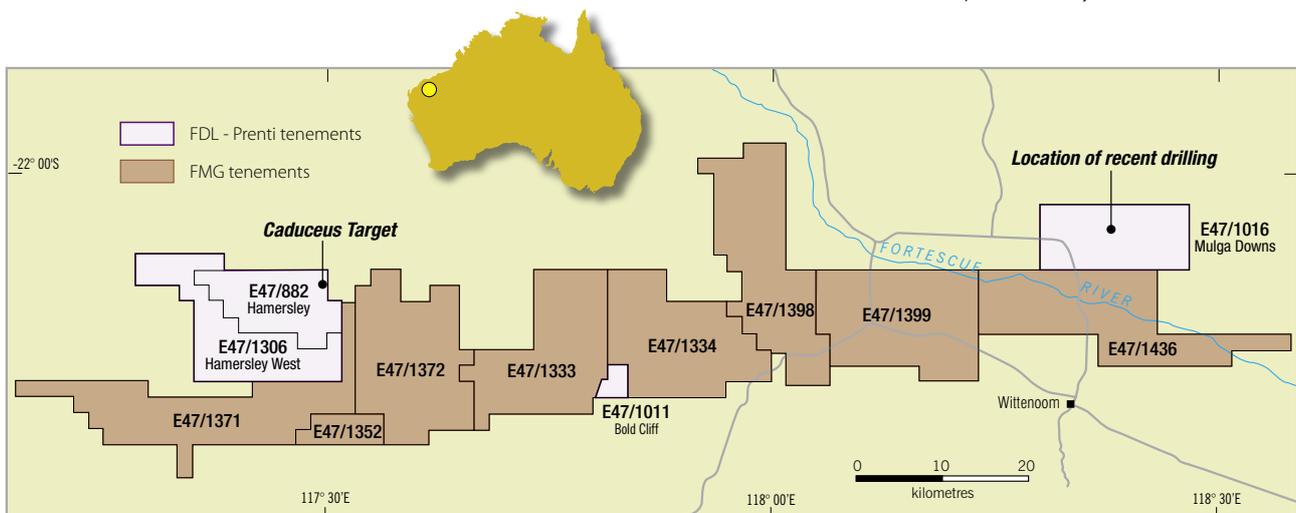
- *Flinders Diamonds Limited has entered an Alliance with De Beers Australia Exploration Limited on its Hamersley Diamond Project in the Pilbara Region of Western Australia (Figure 1). This creates potentially significant benefits for both parties.*
- *The agreement initially involves a data exchange and subsequently grants De Beers the right to earn 70% equity in one or more joint venture areas within the Alliance area.*
- *FDL can retain 30 % equity by funding its share of expenditure or dilute to a 15% free carried interest.*
- *FDL has drill targets ready to test later in 2005.*

#### **Hamersley Alliance**

Flinders Diamonds Limited (FDL) has today signed an Alliance with De Beers Australia Exploration Limited (DBAE), the Australian arm of the world's premier diamond mining and marketing group. The agreement allows for DBAE involvement, at its discretion, in any encouraging diamond exploration situation located by FDL on the Hamersley diamond exploration project in WA.

The Hamersley project is one of FDL's flagship diamond exploration projects located in the Archean Pilbara Craton of Western Australia. The Pilbara Craton has geological similarities to the Kaapvaal Craton of South Africa, which is host to many of the world's major diamond deposits.

The Hamersley Project is an on-going joint venture between FDL and Prenti Exploration Pty Ltd (Prenti),



**Figure 1** Hamersley Project Tenements.

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and it includes diamond exploration rights on adjacent tenements held by Fortescue Metals Group (FMG). FMG have and will retain the iron ore rights to the project area (except on E47/882). The area covering all tenements in the Hamersley Project is referred to as the Alliance area and is shown in Figure 1.

The Alliance creates potentially significant benefits for both parties. It allies FDL to the technical, financial and marketing resources of the De Beers Group and it gives DBAE the opportunity to enter into a joint venture to evaluate and develop any diamondiferous kimberlite discovered in the Alliance area.

### **Terms of the Alliance**

A summary of the main terms of the Alliance from commencement date is:

- DBAE and FDL will exchange their historical exploration data.
- FDL will continue to expend a total of \$1 million to earn 75% equity in the Hamersley Project prior to 30 May 2008. Thereafter FDL can elect to spend a further \$1 million to earn a total of 100% over a further 5 year period. Once FDL owns 100%, DBAE will be entitled, at its discretion, to form a joint venture over one or more specified parts of the Alliance area.
- FDL will advise DBAE as soon as it identifies diamondiferous kimberlite.
- At the commencement of each individual project joint venture FDL will hold 100% interest. This interest would be diluted to 30% if DBAE exercises its option to expend 3.5 times FDL's expenditure on any particular project within the Alliance area to earn an interest of 70%. DBAE's option extends for a period of up to six years.
- Once interest levels reach DBAE 70% and FDL 30%, the parties will contribute to on-going exploration of that project joint venture on a pro-rata basis or dilute according to a standard industry formula. If FDL dilutes to 15%, that interest shall be free carried to a decision to mine.

- Development and production of any diamond ore body delineated by any project joint venture shall be undertaken pursuant to an agreed production agreement.
- In the event of any project joint venture producing diamonds on a commercial basis, DBAE, or its appointed affiliate, will market the joint venture's production at prices that will be no less favourable than the prices paid by the Diamond Trading Company for similar diamond production from comparable size mines.

### **Current Project Structure and Activities**

FDL has been exploring the Hamersley Project area with Prenti since 30 May 2003. FDL originally purchased 50% equity in the project for \$50,000. FDL will own 75% after the expenditure of \$1 million and 100% after the expenditure of \$2 million. Prenti will retain a 5% net profit interest from any future production. This 5% net profit interest will be deductible from FDL's share of production.

Further details on FDL's work since buying into the project can be found in summary form in FDL's quarterly reports for the periods ending 30 September 2003 and 31 March 2005. Copies of these reports are available on FDL's website.

FDL has recently carried out prospecting, ground gravity and magnetic surveying. A number of drill targets have been identified and are due for drill testing in 2005. This work recently commenced at Mulga Downs as reported on 25 August 2005. A total of 10 reverse circulation drill holes were completed. No obvious kimberlites were intersected, but some clays of unknown derivation are currently being analytically checked for kimberlitic affinity. Other drill targets are present on the Hamersley (Caduceus) and Bold Cliff Exploration Licences and heritage clearance surveys are currently being planned so that drilling can be undertaken in October or November of 2005.



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The information in this report has been compiled by Dr K J A Wills who is a Fellow of the Australasian Institute of Mining and Metallurgy and is bound by and follows the Institute's codes and recommended practices. He has a minimum of 5 years experience in the types of activities being reported.