



FLINDERS
DIAMONDS

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

FINANCIAL REPORT
For the half year ended
31st December 2005

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

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FLINDERS DIAMONDS LIMITED

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DIRECTORS REPORT

The names of the directors of the Company during the half-year and as at the date of this report are:

Robert Michael Kennedy
Non Executive Chairman

ASAIT, Grad Dip (Systems Analysis),
FCA, ACIS, FAIM, FAICD

Kevin John Anson Wills
Director

ARSM, PhD, FAusIMM Managing

Ewan John Vickery
Non Executive Director

(LLB)

The net result of operations for the half-year was a profit of \$394,030 (2004: loss of \$184,026).

Review of Operations

During the six months to 31 December 2005, the Company carried out diamond exploration on its tenements with the objective of locating a commercial diamond mine.

All field activities were focused on the Company's most advanced project in the Flinders Ranges of South Australia. Work included identification of anomalies from the June 2005 Nackara Helimag survey. These were then followed up with Ground magnetics and trenching. A number of new kimberlite discoveries were made and representative samples sent for microdiamond testing. Several of the new diamondiferous kimberlites will be further evaluated by bulk sampling commencing in June, 2006.

No work was carried out on the Adelaide Hills, G2 and Twin Swamps Projects.

In Western Australia, Aboriginal Heritage clearance surveys were carried out over the targets waiting for drilling in the Hamersley Project. Clearances were obtained so that these targets can now be drilled in the 2006 dry season.

During the period the Company sold the Non-Diamond mineral rights in the G2 and Strangways projects and the right to explore for metalliferous minerals in the Adelaide Hills project to Maximus Resources Limited. In consideration the Company received 7 million fully paid ordinary shares in Maximus Resources and 3.5 million options to acquire shares in Maximus Resources at 20 cents per share before 30th June 2008.


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AUDITORS INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, PKF, to provide the directors of Flinders Diamonds Limited with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is made on the following page.

Dated at Adelaide this 14th day of March 2006 and signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to be 'Robert M Kennedy', with a large loop at the end.

Robert M Kennedy
Chairman

FLINDERS DIAMONDS LIMITED

ACN 091 118 044



Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

**To : The Directors
Flinders Diamonds Limited**

As lead engagement partner for the review of Flinders Diamonds Limited for the half year 31 December 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

Signed this 14th day of March 2006.

A handwritten signature in blue ink, appearing to read 'P J Whelan'.

PKF
Chartered Accountants

A handwritten signature in blue ink, appearing to read 'P J Whelan'.

P J Whelan
Partner

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The PKF International Association is an association of legally independent firms

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

CONDENSED INCOME STATEMENT

	Half-year Ended 31 December 2005	Half-year Ended 31 December 2004
	\$	\$
Revenues from ordinary activities		
Interest	6,249	25,425
Profit on Sale of tenements	1,150,000	-
Recovery of legal expenses	-	141,512
Expenses from ordinary activities		
Exploration expenses	(22,037)	(40,381)
Audit and accounting Fees	(32,925)	(38,310)
Depreciation expense	(20,242)	(15,660)
Directors' remuneration	(98,088)	(98,032)
Share registry & ASX Fees	(55,547)	(26,431)
Corporate Consulting	(49,790)	(40,000)
Salaries and wages	(71,430)	(59,717)
Other administrative expenses	(55,582)	(32,432)
Loss on write down of Investment to Fair Value	(356,578)	-
Net loss from ordinary activities before income tax expense	394,030	(184,026)
Income tax expense relating to ordinary activities	-	-
Profit / (Loss) from ordinary activities after related income tax expense	394,030	(184,026)
Basic earnings (loss) per share	0.0021	(0.0014)
Diluted earnings (loss) per share	0.0014	(0.0007)

The income statements are to be read in conjunction with the attached notes.

FLINDERS DIAMONDS LIMITED

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CONDENSED BALANCE SHEET

As at 31st December 2005

	31 December 2005	30 June 2005
	\$	\$
CURRENT ASSETS		
Cash assets	121,548	500,303
Receivables	13,111	31,062
Total current assets	<u>134,659</u>	<u>531,365</u>
NON-CURRENT ASSETS		
Exploration & evaluation expenditure	6,490,034	6,065,618
Plant and equipment	91,692	110,007
Investments	793,422	-
Other Financial assets	4,000	4,000
Total non-current Assets	<u>7,379,148</u>	<u>6,179,625</u>
TOTAL ASSETS	<u>7,513,807</u>	<u>6,710,990</u>
CURRENT LIABILITIES		
Payables	27,962	92,069
Provisions	60,952	13,186
Total current liabilities	<u>88,914</u>	<u>105,255</u>
NON-CURRENT LIABILITIES		
Provisions	19,615	15,783
Total non-current liabilities	<u>19,615</u>	<u>15,783</u>
TOTAL LIABILITIES	<u>108,529</u>	<u>121,038</u>
NET ASSETS	<u>7,405,278</u>	<u>6,589,952</u>
EQUITY		
Contributed equity	10,131,184	9,709,887
Retained losses	(2,725,906)	(3,119,935)
TOTAL EQUITY	<u>7,405,278</u>	<u>6,589,952</u>

The balance sheet is to be read in conjunction with the attached notes.

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CONDENSED STATEMENT OF CHANGES IN EQUITY

As at 31st December 2005

	31/12/05	30/6/05	31/12/04
	\$	\$	\$
Total Equity at the beginning of the period - AGAAP	6,589,952	6,581,403	6,316,579
Total Equity at the beginning of the period - AIFRS	6,589,952	6,581,403	6,316,579
Net Income/(Losses) recognised for the period	0	0	0
Net Income/(Losses) recognised directly in equity	394,030	(774,909)	(184,026)
Other movements in equity:			
Retained Profits(Losses)	0	0	0
Asset Revaluation Reserve	0	0	0
Issued Capital	421,296	783,458	448,850
Total AIFRS - adjusted equity at the end of the period	7,405,278	6,589,952	6,581,403

The statement of changes in equity is to be read in conjunction with the attached notes.

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CONDENSED CASH FLOW STATEMENT

For the half year ended 31st December 2005

	Half-year Ended 31 December 2005	Half-year Ended 31 December 2004
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(397,909)	(224,862)
Interest received	24,200	29,994
	<hr/>	<hr/>
Net cash used in operating activities	(373,709)	(194,868)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for mining tenements, exploration and evaluation expenditure	(424,416)	(1,240,860)
Payments for property, plant and equipment	(1,927)	(5,441)
	<hr/>	<hr/>
Net cash used in investing activities	(426,343)	(1,246,301)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans	-	-
Issue of shares	421,297	477,500
	<hr/>	<hr/>
Net cash provided from financing activities	421,297	477,500
	<hr/>	<hr/>
Net increase (decrease) in cash held	(378,755)	(963,669)
	<hr/>	<hr/>
Cash at 1 July 2005	500,303	1,717,858
	<hr/>	<hr/>
Cash at 31 December 2005	121,548	754,189
	<hr/> <hr/>	<hr/> <hr/>

The cash flow statement is to be read in conjunction with the attached notes.

FLINDERS DIAMONDS LIMITED

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PREPARATION OF ACCOUNTS

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Flinders Diamonds Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian GAAP. The adoption of A-IFRS has had no effect of on the financial statements.

NOTE 2. CONTINGENT LIABILITIES

There were no changes in contingent liabilities from those disclosed in the annual report for the year ended 30 June 2005.

NOTE 3. CONTINGENT ASSETS

There were no changes in contingent assets from those disclosed in the annual report for the year ended 30 June 2005.

NOTE 4. SEGMENT INFORMATION

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

NOTE 5. SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the half year which significantly affected, or may significantly affect, the operations of the entity, the results of those operations or state of affairs of the entity in future financial years.

FLINDERS DIAMONDS LIMITED

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

NOTE 6. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The company is required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards (“A-IFRS”) for annual reporting periods beginning on or after 1 January 2005. Accordingly, the company’s first half-year report prepared under A-IFRS is for the half-year reporting period ended 31 December 2005, and its first annual financial report prepared under A-IFRS will be for the year ending 30 June 2006.

There has been no impact on the financial statements as a result of the adoption of A-IFRS.

The directors have identified the following as being the key accounting policy differences arising on transitioning to A-IFRS.

Capitalised Exploration and Development Expenditure

AASB6 “Exploration for and Evaluation of Mineral Resources” is applicable to annual reporting periods beginning on or after 1 January 2005. The new standard deals exclusively with exploration and evaluation of mineral resources. It does not deal with development, construction and restoration costs, amortisation of those costs, inventories and revenue recognition. These phases of extractive operations will be accounted for under other Australian Accounting Standards.

Impairment testing

Under A-IFRS all current and non-current assets are subject to impairment testing. The company is required to test the values attributed to assets where impairment is indicated. Such testing requires the company to identify the smallest group of assets generating independent cash inflows, called cash generating units (“CGUs”), and determine the recoverable amount for each CGU. Recoverable amounts are determined using the higher of either value in use calculated using reliable estimates of future discounted cash flows, or fair values. Where the carrying amount of a CGU exceeds the recoverable amount, an impairment loss exists which is recognised in the statement of income.

Income tax

The company under existing accounting standards recognises deferred taxes by accounting for the differences between accounting profit and taxable income, which give rise to ‘permanent’ and ‘timing’ differences. Under A-IFRS, deferred taxes are measured by reference to the ‘temporary differences’ determined as the difference between the carrying amount and tax base of assets and liabilities recognised in the balance sheet.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

NOTE 7. SALE OF NON-DIAMOND MINERAL RIGHTS

During the period Flinders Diamonds sold the non-diamond mineral rights in the Adelaide Hills project, the Billa Kalina project and the Woolanga project to Maximus Resources for consideration of 7 million fully paid ordinary shares in Maximus Resources Limited and 3.5 million options to acquire shares in Maximus Resources Limited.

These shares and options are being held in Escrow for a period of twenty four months.

This transaction was approved by Flinders Diamonds shareholders on the 30th November 2005.

The value of these shares and options was determined to be \$1.15 million by independent experts DMR Corporate Pty Ltd. This valuation was based on a price of \$0.20 per share pursuant to the Maximus prospectus discounted by 17.5% to take into consideration the effect of escrow (24 months).

At the end of the period the shares and options have been written down to Fair Value. Fair Value has been determined by using the market price at the end of the period discounted by 16.04% to take in to consideration the effect of escrow (22 months).

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DIRECTORS DECLARATION

The directors declare that:

(a) In the directors' opinion, there are reasonable grounds to believe that the disclosing entity will be able to pay its debts as and when they become due and payable; and

(b) In the directors' opinion, the financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to Section 303(5) of the Corporations Act 2001

On behalf of the directors

A handwritten signature in black ink, appearing to be 'Robert M Kennedy', with a large loop at the end.

Robert M Kennedy
Director

Adelaide, South Australia
14 March 2006

FLINDERS DIAMONDS LIMITED

ACN 091 118 044



Chartered Accountants
& Business Advisers

INDEPENDENT REVIEW REPORT

TO THE MEMBERS OF FLINDERS DIAMONDS LIMITED

Scope

We have reviewed the financial report of Flinders Diamonds Limited for the half-year ended 31 December 2005 as set out on pages 6 to 13. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing 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.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The auditor's independence declaration given to the relevant directors would be in the same terms if it had been given at the time the audit report was made.

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Chartered Accountants
& Business Advisers

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial 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 consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Signed this 14th day of March, 2006.

A handwritten signature in blue ink that reads 'PKF'.

PKF

Chartered Accountants

A handwritten signature in blue ink that reads 'P J Whelan'.

P J Whelan

Partner

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