



FLINDERS
DIAMONDS

Australian Stock Exchange Announcement

KIMBERLITE TARGETING DRILLING PROGRAM HAS COMMENCED AT HAMERSLEY PROJECT, WA

16 October 2006

The Manager

Companies Announcements Office

Australian Stock Exchange

20 Bridge Street SYDNEY NSW 2000

Highlights

- Maiden drilling has commenced over the weekend at the Company's Hamersley tenement in Western Australia
- Program of four 200m cored holes
- Targets include recently identified structurally controlled breccia zones

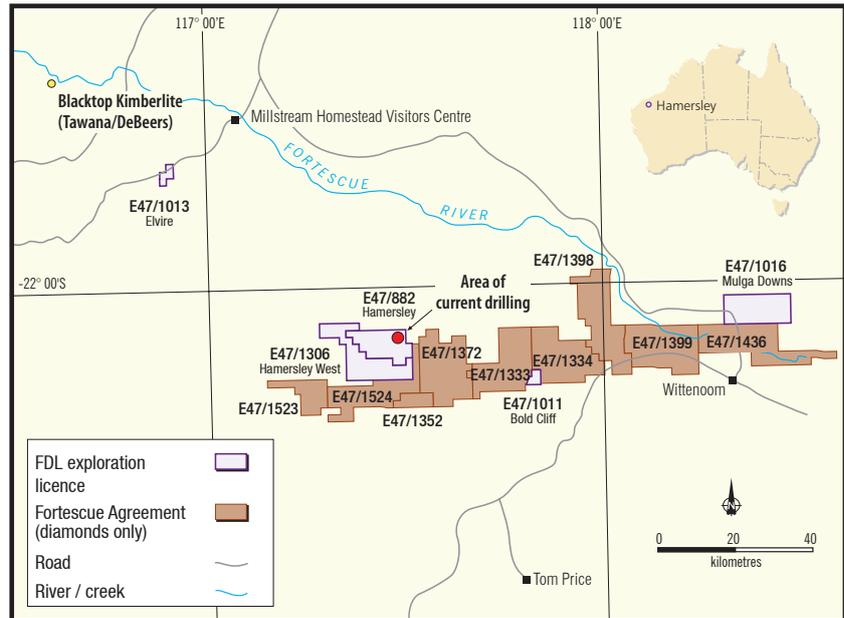


Figure 1. Hamersley Project Regional Location.

Drilling Program

FDL has been fortunate to secure, at short notice, a diamond drill rig to further investigate targets within tenement E47/882 in the Hamersley region of WA. Drilling commenced over the weekend and the program is to test two prospects - Caduceus and Iraklis (Figure 2).

Recent structural mapping, as summarised on Figure 2, has identified a number of potential kimberlite fissure targets. In the case of the Caduceus prospect, the targets closely relate to previous Reverse Circulation (RC) drill holes from which diamonds and indicator minerals, including pyrope garnet, picro-ilmenite and chromite have been recovered. In addition, the target is supported by aerial and ground magnetic data. Numerous alluvial diamond occurrences have also

been reported by previous workers in proximity to the Caduceus target, the source of which remains unknown.

Previous RC drilling at the Iraklis target resulted in one positive sample (of two tested) containing pyrope and garnet (Figure 2).

A program of HQ diameter core drilling, consisting of 4 and possibly 5 holes up to 200 metres each, has been designed to test both targets and recover samples that will enable the identification of kimberlite. This has not been possible from previous drilling as the percussion samples were both extensively weathered and highly contaminated with ferruginous material from the Brockman Iron Formation. The program is anticipated to continue for

about one month, with visual results available in November.

Hamersley Project, Prenti JV

Flinders 50% and earning 100%

The Hamersley project is located in the Pilbara region of Western Australia and includes five Flinders-Prenti JV exploration licences and nine Fortescue Metals Group (FMG) exploration licences as shown on Figure 1. In the Flinders-Prenti JV, Flinders previously purchased 50% and will own 100% after spending \$2 million. Flinders has a commodity rights exchange agreement with FMG whereby Flinders owns the diamond rights and FMG own the iron ore rights. Flinders also has a strategic data alliance with De Beers whereby, after Flinders has earned 100%

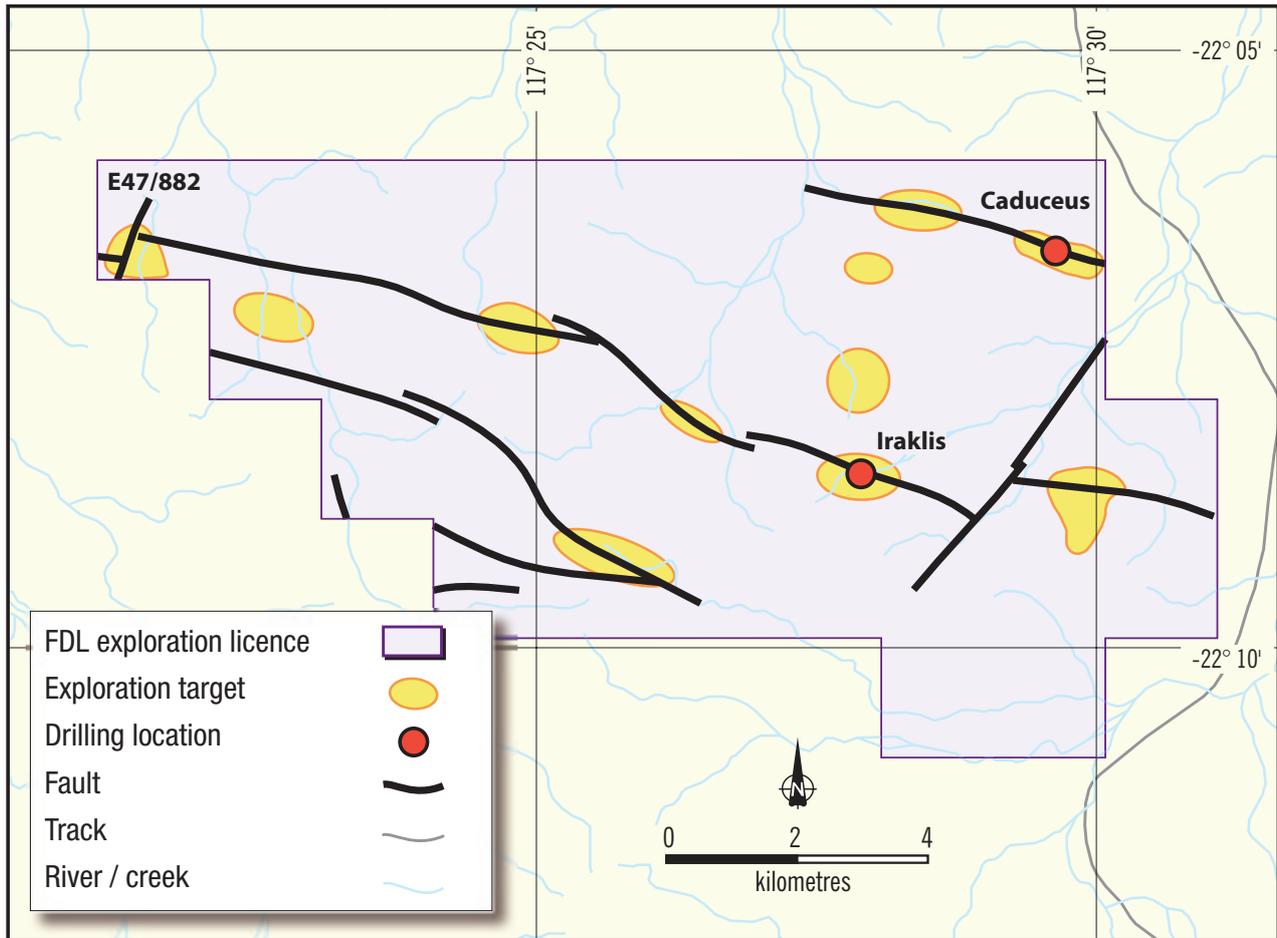


Figure 2. Drill locations and structural targets in Hamersley E47/882.

in the Prenti JV, De Beers has the right to purchase 70% of the project for 3.5 times Flinders expenditure.

Diamond Exploration in the area has recently received a boost from the work of De Beers and Tawana Resources who have located the Blacktop Kimberlite about 100 kilometres northwest of Flinders Hamersley Project Area (Figure 1). They have also recently reported the recovery of 20.89 carats of diamonds from 215 tonnes of kimberlite, and have been carrying out a helicopter supported sampling program which has received encouraging results.

Dr Kevin Wills
 Managing Director
 16 October 2006

For further information please contact:
 Phone: 1300 559 564
 Mobile: 0419 850 997
 Email: kwills@flindersdiamonds.com

The information in this report that relates to Exploration Results, Mineral Resources and Ore Reserves is based on information compiled by Dr K Wills who is a Fellow of the Australasian Institute of Mining and Metallurgy and acts as a geological consultant to Flinders Diamonds Limited. Dr Wills has more than five years relevant experience in the style of mineralisation and types of deposit under consideration and consents to inclusion of the information in this report in the form and context in which it appears. He qualifies as Competent Person as defined in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves".