



FLINDERS
DIAMONDS

FLINDERS DIAMONDS LIMITED

ABN 46 091 118 044

PROSPECTUS

17 January 2006

A Prospectus for a 1 for 1 non-renounceable Rights Issue to Eligible Shareholders to raise approximately \$3.027 million and a Placement Offer to investors to raise \$1.2 million.

This Prospectus is an important document and should be read in its entirety. If you have any queries about any part of this Prospectus, you should consult your stockbroker or other professional adviser.

CORPORATE DIRECTORY

Directors

Mr Robert Kennedy (Non-Executive Chairman)

Dr Kevin Wills (Managing Director)

Mr Ewan Vickery (Non-Executive Director)

Secretary

Mr Mick Billing

Registered Office

20 Boskenna Avenue
Norwood, South Australia, 5067

Telephone (08) 8362 5900

Facsimile (08) 8362 5966

Share Registry

Computershare Investor Services Pty Ltd

Level 5, 115 Grenfell Street
Adelaide, South Australia, 5000

GPO Box 1903
Adelaide, South Australia, 5001

Enquiries (within Australia): 1300 556 161

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Facsimile: +61 8 8236 2305

Stock Exchange Listing

Australian Stock Exchange Limited

ASX Code: FDL

TABLE OF CONTENTS

1. IMPORTANT NOTICE	3
2. DETAILS OF THE OFFERS	4
3. INFORMATION ABOUT THE COMPANY	9
4. RISK FACTORS	10
5. EFFECT OF THE OFFERS	12
6. RIGHTS AND LIABILITIES ATTACHING TO SHARES	17
7. TERMS AND CONDITIONS OF OPTIONS	19
8. ADDITIONAL INFORMATION	21
9. DEFINITIONS	23
10. DIRECTORS' AUTHORISATION	24
Rights Issue Application Form	25
Shortfall Application Form	27
Placement Application Form	29

1. IMPORTANT NOTICE

This Prospectus is dated 17 January 2006. A copy of this Prospectus was lodged with the ASIC on 17 January 2006. The ASIC takes no responsibility as to the contents of this Prospectus.

No securities will be allotted or issued on the basis of this Prospectus after the expiry date of 17 February 2007.

This is an important document. Before deciding to participate in the Rights Issue or invest in the Placement Offer you should consider whether it is a suitable investment for you. This Prospectus constitutes only general advice and does not take into account your individual investment objectives, financial situation or particular needs. The Company encourages you to seek independent financial and taxation advice before making a decision about whether to participate in the Rights Issue or invest in the Placement Offer. You should have regard to the risks involved. Some of these risks are discussed in more detail in section 4 of this Prospectus. An investment in the Offers should be considered speculative.

This Prospectus and the Application Form do not constitute an offer or invitation to subscribe in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

A copy of this Prospectus can be downloaded from the website of the Company at www.flindersdiamonds.com. Any person accessing the electronic version of this Prospectus for the purposes of making an investment in the Company must be a Shareholder with a registered address in Australia or New Zealand and must only access

the Prospectus from within Australia or New Zealand. The Corporations Act prohibits any person distributing the Application Form unless it is included in or accompanies a hard copy of this Prospectus, which may be obtained by contacting the Company.

This Prospectus is a short form prospectus issued in accordance with section 713 of the Corporations Act. This means that this Prospectus does not itself contain all the information that is generally required to be set out in a document of this type. Rather, in preparing this Prospectus, regard is made to the Company's status as a disclosing entity for the purposes of the Corporations Act and that certain matters may reasonably be expected to be known to investors and their professional advisers.

Key Dates*

Announcement of Rights Issue	17 January	2006
Record Date for Rights Issue	25 January	2006
Rights Issue and Placement Offer open	25 January	2006
Rights Issue and Placement Offer close	24 February	2006
General Meeting to approve Placement Offer	3 March	2006

* These dates are indicative only. Subject to the Corporations Act and the ASX Listing Rules, the Company reserves the right to vary the Closing Date without prior notice.

Key Definitions

Certain words and phrases used in this Prospectus have defined meanings set out in section 9 of this Prospectus.

2. DETAILS OF THE OFFERS

2.1 Overview of Offers

Pursuant to this Prospectus, the Company is seeking to raise approximately \$4.227 million (before costs) by offering for subscription a total of approximately 281.8 million New Shares at \$0.015 per New Share.

The capital raising comprises two offers:

- the Rights Issue; and
- the Placement Offer.

The Rights Issue will raise approximately \$3.027 million through the offer of approximately 201.8 million New Shares together with one free attaching New Option per one New Share to Eligible Shareholders on the basis of one New Share for every one Existing Share held at the Record Date.

The Placement Offer will raise approximately \$1.2 million through the offer of approximately 80 million additional New Shares together with one free attaching New Option per one New Share to investors.

The New Shares offered under this Prospectus will be fully paid and will rank equally in all respects with existing issued Shares. The rights and liabilities attaching to the New Shares are set out in the Constitution of the Company and in the Corporations Act. The principle rights and liabilities attaching to the New Shares and existing Shares are summarised in section 6.

The New Options will be exercisable at 10 cents each on or before 29 September 2008. Shares issued on exercise of the New Options will rank equally with existing Shares on issue. Further details relating to the terms and conditions of the New Options are set out in section 7.

The Placement Offer is subject to shareholder approval as referred to in section 2.3(b). The Rights Issue is not conditional on approval of the Placement Offer. Irrespective of whether the

Placement Offer is approved, the Rights Issue will still proceed.

The Offers are not underwritten.

2.2 Rights Issue

a) The Rights Issue

Under the Rights Issue, the Company is offering Eligible Shareholders one New Share for every one Existing Share held as at close of business on 25 January 2006. The issue price for each New Share is \$0.015 and is payable in full on Application. For each New Share issued under the Rights Issue, Eligible Shareholders will receive one free attaching New Option.

The number of New Shares that each Eligible Shareholder is entitled to is shown on their personalised Entitlement and Acceptance Form.

The total number of New Shares issued under the Rights Issue will be approximately 201.8 million to raise approximately \$3.027 million.

The Rights Issue will close at close of business on 24 February 2006 or any other date the Company determines, subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable laws.

b) Entitlements

Eligible Shareholders will receive a personalised Entitlement and Acceptance Form showing the number of New Shares the Eligible Shareholder is entitled to subscribe for under the Rights Issue.

The Company currently has 174,578,644 listed and 1,075,000 unlisted Options on issue. Option holders may participate in the Rights Issue by exercising any or all of these Options before the Record Date. The exercise of any Options prior to the Record Date will increase the issued capital of the Company and may increase the number of

New Shares issued under the Rights Issue and the total amount raised under the Rights Issue. Option holders cannot participate in the Rights Issue without first exercising their Options.

The ASX has granted to the Company a waiver of ASX Listing Rule 7.40 to the extent that it requires the Company to send notice of the Rights Issue to option holders. The ASX granted the waiver on conditions that:

- (1) the notice which would have been required to be sent to option holders, absent the waiver, be provided to the Company Announcements Office of the ASX; and
- (2) if the market price of Shares exceeds 2.7 cents before the Record Date, the Company must immediately send notice of the Rights Issue to option holders.

c) Eligible Shareholders and their choices

Eligible Shareholders may:

- 1) take up their Rights in full;
- 2) take up their Rights in full and apply for New Shares in excess of their Rights;
- 3) take up part of their Rights and allow the balance to lapse; or
- 4) not take up their Rights and allow it to lapse.

Eligible Shareholders who wish to take up part or all of their Rights should follow the instructions in section 2.6(a).

Eligible Shareholders may also participate in the Placement Offer. Details of the Placement Offer and how to participate in it are set out in sections 2.3 and 2.6(c).

d) Applications in excess of Rights and Shortfalls

Eligible Shareholders may take up any New Shares offered on the basis of this Prospectus which are not taken up by other Eligible Shareholders. To do this, the Eligible Shareholders must in addition to completing the portion of their Entitlement and Acceptance Form which relates to their entitlement, complete the portion of the form relating to the additional shares they wish to take up.

The Directors reserve the right to issue any shortfall in subscription for New Shares and New Options under the Rights Issue at their discretion within 3 months after the close of the Rights Issue.

Any Shares offered on the basis of this Prospectus which are not taken up by Eligible Shareholders may also be taken up by investors that are not Eligible Shareholders. To subscribe for any shortfall, these other investors must complete and return a Shortfall Application Form as set out in section 2.6(b).

The Directors reserve the right to accept, scale back or refuse any application for additional New Shares in excess of a Shareholder's entitlement or any application in excess of the shortfall available for issue under the Rights Issue. Any excess Application Money will be refunded without interest.

e) Rights are non-renounceable

The Rights Issue is non-renounceable, meaning that Eligible Shareholders cannot sell or transfer their Rights.

f) Rights not taken up

Rights not taken up will lapse at the Closing Date of the Rights Issue. Eligible Shareholders who do not take up their Rights will receive no benefit for their Rights and, although they will continue to own the same number of Shares, their proportionate interests in the Company will be diluted by the Rights Issue and the Placement Offer.

g) Overseas Shareholders

The Rights Issue is only being extended to Shareholders with registered addresses in Australia and New Zealand. All other Shareholders (**Non-Resident Shareholders**) will not be offered Rights under this Prospectus. The Company has determined, in accordance with the ASX Listing Rules, that it would be unreasonable to make an offer under this Prospectus to Non-Resident Shareholders having regard to:

- 1) the number of Shareholders in the places where the offer would be made;

- 2) the number and value of the rights that would be offered; and
- 3) the cost of complying with the legal requirements in those places.

No Entitlement and Acceptance Forms are being sent to Non-Resident Shareholders, and this Prospectus may be sent to them for information purposes only.

2.3 Placement Offer

a) The Placement Offer

The Company is also inviting investors to apply for a total of 80 million additional New Shares and 80 million New Options under the Placement Offer. The issue price per New Share is \$0.015 and is payable in full on application. For each New Share issued under the Placement Offer, applicants will receive one free attaching New Option.

The New Shares offered under the Placement Offer comprise:

- any shortfall on the Rights Issue; and
- approximately 80 million additional New Shares, subject to their issue being approved by Shareholders at a General Meeting scheduled to be held on 3 March 2006.

The Placement Offer will open on 25 January 2006 and will close at close of business on 24 February 2006 or any other date the Company determines, subject to the requirements of the Corporations Act, the ASX Listing Rules and other applicable laws.

b) Shareholder Approval

The issue of additional New Shares and New Options under the Placement Offer is conditional on approval of Shareholders, which the Company intends to seek at a meeting of Shareholders to be held on 3 March 2006, before any New Shares and New Options are allotted under the Placement Offer.

The approval of Shareholders is required because the ASX Listing Rules restrict the number of securities that the Company can

issue during a 12 month period to 15% of the Company's capital unless the issue falls within certain exceptions (none of which apply to the issue of the additional New Shares and New Options under the Placement Offer) or Shareholders approve the issue of the securities.

If the required approval is not given by Shareholders, none of the New Shares and New Options offered under the Placement Offer will be issued and the Company will refund all Application Money received under the Placement Offer in full.

2.4 Purpose of the Offers

The net proceeds from the Offers will be used as working capital to finance the exploration and development of tenements in the Company's existing portfolio as well as to look for new opportunities in acquiring proven or producing assets to which the Company can add value through technical enhancements.

2.5 Minimum Subscription

There is no minimum subscription for the Offers.

2.6 How to Apply

An Application for New Shares and New Options can only be made by completing and lodging an Application Form. It must be completed in accordance with the instructions appearing on that form.

a) Rights Issue Applications

To apply for part of or all of their Rights, Eligible Shareholders should:

- 1) Complete and return the personalised Entitlement and Acceptance Form enclosed with this Prospectus in accordance with the instructions set out on the form.
 - Eligible Shareholders who wish to apply for only part of their Rights should complete the Entitlement and Acceptance Form, nominating the number of New Shares they wish to apply for.

- Eligible Shareholders who wish to apply for additional New Shares in excess of their rights should complete the relevant section of the Entitlement and Acceptance Form, nominating the number of additional New Shares they wish to apply for.

- 2) Include with their completed personalised Entitlement and Acceptance Form a cheque, or bank draft drawn on and payable at an Australian bank in Australian currency for an amount equal to the number of New Shares for which they wish to apply multiplied by \$0.015 per New Share. Cheques or bank drafts must be made payable to *"Flinders Diamonds Limited Share Offer Account"* and crossed *"Not Negotiable"*.
- 3) Return the completed Entitlement and Acceptance Form, together with payment for the New Shares to the Company:

by post:

Flinders Diamonds Limited Share Offer
C/- Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5000

or in person:

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

The Entitlement and Acceptance Form must be received no later than close of business on 24 February 2006.

b) Shortfall Applications

Investors other than Eligible Shareholders that wish to take up any New Shares offered under the Rights Issue which are not taken up by other Eligible Shareholders must complete a Shortfall Application Form.

Shortfall Application Forms will be provided to investors on request. Refer to the Shortfall Application Form for instructions on its completion.

Payment must be made by a cheque, or bank draft drawn on and payable at an Australian bank in Australian currency for an amount equal to the number of New Shares for which the investor wishes to apply multiplied by \$0.015 per New Share. Cheques or bank drafts must be made payable to *"Flinders Diamonds Limited Share Offer Account"* and crossed *"Not Negotiable"*.

Shortfall Application Forms together with payment for the New Shares must be returned to the Company:

by post:

Flinders Diamonds Limited Share Offer
C/- Computershare Investor Services Pty Limited
GPO Box 1903
Adelaide SA 5000

or in person:

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

The Shortfall Application Form must be received no later than close of business on 24 February 2006.

c) Placement Offer Applications

To apply for New Shares under the Placement Offer, investors should:

- 1) Complete and return the Placement Application Form enclosed with this Prospectus in accordance with the instructions set out on the form.
- 2) Include with their completed Placement Application Form a cheque, or bank draft drawn on and payable at an Australian bank in Australian currency for an amount equal to the number of New Shares for which they wish to apply multiplied by \$0.015 per New Share. Cheques or bank drafts must be made payable to *"Flinders Diamonds Limited Share Offer Account"* and crossed *"Not Negotiable"*.

- 3) Return the completed Placement Application Form, together with payment for the New Shares to the Company:

by post:

Flinders Diamonds Limited Share Offer
C/- Computershare Investor Services Pty
Limited
GPO Box 1903
Adelaide SA 5000

or in person:

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

The Placement Application Form must be received no later than close of business on 24 February 2006.

2.7 When to Apply

Although copies of this Prospectus will be available within seven days of the Prospectus Date (in paper form or electronically through the internet site maintained by the Company – refer to Corporate Directory), you will not be able to access an Application Form until at least seven days after the Prospectus Date. The Company will not accept an application for New Shares before the end of that seven day period.

The purpose of the seven day period is to give market participants the opportunity to examine the Prospectus before the Company accepts any application for New Shares. The seven day period may be extended by ASIC up to 14 days.

Completed Application Forms, together with the full amount payable, may be lodged at any time after the commencement of business on 25 January 2006. Application Forms must be received by close of business on 24 February 2006. Eligible Shareholders and investors are encouraged to submit their Applications as early as possible.

2.8 ASX Listing

Application will be made to the ASX within 7 days after the date of this Prospectus for the New Shares and New Options offered under this Prospectus to be quoted on the ASX.

If the ASX does not grant permission for official quotation of the New Shares and New Options within 3 months of the date of this Prospectus, none of the New Shares and New Options offered under this Prospectus will be issued. In these circumstances, the Company will refund all application monies within the time prescribed by the Corporations Act.

The ASX take no responsibility for the contents of this Prospectus.

2.9 Brokerage

The Company will pay a brokerage fee of 5% of the amount subscribed (and accepted by the Company) to any licensed dealers in securities in respect of successful Applications which are lodged by them and bear their stamp.

2.10 Taxation

Shareholders should be aware that there are taxation implications for subscribing for New Shares and New Options. These taxation implications will vary between different Shareholders and Shareholders should consult their own professional tax adviser in relation to the taxation implications.

2.11 Risk Factors

Before deciding to invest in the Company, investors should read the Prospectus in its entirety and in particular, should carefully consider the risk factors that could affect the Company. A description of the potential risks is outlined in section 4. An investment of this kind involves a number of risks, some of which are specific to the Company and the industry in which it operates.

3. INFORMATION ABOUT THE COMPANY

3.1 Company objective

The Company was incorporated on 11 January 2000 and has been included in the Official List of the ASX since 20 February 2002.

The Company's principal objective is to provide an opportunity for Shareholders to create personal wealth through the discovery and development of a commercially viable diamond mine. An accompanying objective is to create a vertically integrated diamond business at the earliest opportunity.

3.2 Disclosing Entity

This Prospectus is issued pursuant to section 713 of the Corporations Act as a prospectus for the offer of continuously quoted securities.

The Company is a "disclosing entity" for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a company listed on the ASX, the Company is subject to the ASX Listing Rules which require continuous disclosure to the market of any information the Company has which a reasonable person would expect to have a material effect on the price or value of the Company's shares.

The ASX maintains files containing publicly disclosed information about all companies listed on the ASX. The Company's file is available for inspection at the ASX in Adelaide during normal working hours.

The ASIC also maintains records in respect of documents lodged with it by the Company and copies of these documents may be obtained from or inspected at any Regional Office of the ASIC.

3.3 Information Available to Shareholders and Prospective Investors

The Company will provide a copy of each of the following documents free of charge, to any Shareholder or prospective investor who so requests

during the application period under this Prospectus:

- the 2005 Annual Report of the Company; and
- the following announcements lodged with the ASX since release of the 2005 Annual Report:

Date	Announcement
31/10/2005	First Quarter Activities & Cashflow Report
31/10/2005	Notice of Annual General Meeting
11/11/2005	Erratum & Independence Declaration
15/11/2005	Locates Five Diamondiferous Kimberlites
15/11/2005	Flinders Diamonds' Welcomes Potential SA Discovery
21/11/2005	Change of Director's Interest Notice
21/11/2005	Ceasing to be a Substantial Holder
30/11/2005	AGM Chairman's Address
30/11/2005	AGM - Managing Directors Presentation
30/11/2005	Amended AGM Chairman's Address
30/11/2005	Results of AGM
13/12/2005	Appendix 3B
29/12/2005	Becoming a substantial holder
16/1/2006	Appendix 3B - exercise of options

3.4 Market Prices of the Company's Shares on the ASX

The highest and lowest market sale price of the Company's shares on the ASX during the 3 months immediately preceding the date of this Prospectus, and the respective dates of those sales and the last sale on the ASX trading day immediately preceding the date of this Prospectus were as follows:

	Price	Date
Highest	\$0.024	19 October 2005
Lowest	\$0.017	14 November 2005
Latest	\$0.019	16 January 2006

4. RISK FACTORS

As with all investments, investors should be aware that the market price of securities may fall as well as rise. It is recommended that investors read the entire Prospectus to assess the risks of investing in the Company.

The potential returns of the Company will be exposed to risks specific to the Company and to general investment risks. While it is impossible to identify all risks, the attention of investors is drawn to the following particular risks.

4.1 Mining and Exploration

Mining and exploration are high risk endeavors which can create high returns. The Company's projects are at an exploration stage and it is uncertain if further exploration will lead to economic production of minerals.

4.2 Tenancy

The Company could be forced to relinquish an area it did not want to relinquish either by ministerial direction or because it had not met its statutory minimum expenditure commitments. In the process of area reduction to reduce statutory expenditure commitments, the Company could inadvertently relinquish ground where a mineral deposit was present, but remained undiscovered.

4.3 Resource Estimates

Resource estimates are not precise and involve expressions of judgment based on knowledge, experience and industry practice. Estimates, which were valid when made, may change significantly when new information becomes available. In addition, resource estimates depend to a significant extent on interpretation of geological boundaries, which may prove to be inaccurate. Should the Company encounter unusual mineralization to that predicted by past drilling and mining, resource estimates may have to be adjusted and feasibility

studies may have to be altered in a way which could either benefit or adversely affect the Company's financial projections.

4.4 Commodity Prices and Exchange Rates

Future sales of commodities produced by the Company will expose the potential income of the Company to commodity price and exchange rate risks. The international prices of various commodities are denominated in United States Dollars, whereas the income and expenditure of the Company will be taken into account in Australian currency. The potential revenues of the Company will be exposed to the fluctuations and volatility of commodity prices and the rate of exchange between the United States dollar and the Australian dollar as determined in Australian markets.

4.5 Valuation of Tenements

This Prospectus does not rely upon any valuation of the tenements and makes no representation as to the value of the tenements. Intending investors and their advisers should make their own assessment as to the value of the tenements.

4.6 Funding

The Company may be dependent upon obtaining future equity, debt or joint venture financing to support long term exploration, evaluation and development of its projects.

4.7 Economic Factors

Demand for diamonds and factors such as inflation, exchange rate fluctuations, interest rates, industrial disruption, political decisions, cost over-runs and technical problems all affect the ability of the Company to profit from any discovery. The international market price of diamonds is beyond the control of the Company.

4.8 Share Market Conditions

The price of the Company's Shares, when quoted on the ASX, will be influenced by international and domestic factors which generally affect equity, financial and commodity markets. The value of its Shares and options may also affect the Company's ability to raise equity capital.

4.9 Native Title

The directors are aware of a number of native title claims which wholly or partially cover the Company's exploration project areas. These claims may impact upon planning and implementation of future exploration programs. The potential also exists for further native title claims to be lodged over any existing or future tenement area. Native title claims have the potential to cause significant delays to exploration.

The Directors have undertaken some limited investigations to assess the likelihood of the success of a native title claim over any areas in which the company presently holds an interest. However, the Directors are not in a position to assess in detail the impact of native title on the Company's planned operations.

The Directors therefore consider the potential for native title claims to be lodged over the areas containing exploration projects to be a risk to investment.

4.10 Aboriginal Heritage Sites

Commonwealth and State legislation obliges the Company to identify and protect Aboriginal heritage sites.

It is likely that, due to the substantial area held, some sites of significance will be identified within the Company's tenements. It is therefore probable that one or more sites of significance will exist in an area which the Company considers to be prospective.

The Company's policy is to carry out clearance surveys prior to conducting exploration which would cause a disturbance to the land surface.

4.11 Land Access

Immediate access to tenements cannot in all cases be guaranteed. The Company may be required to seek consent of landholders or other persons or groups with an interest in real property encompassed by tenements. Judicial decisions and Commonwealth or State legislation could unforeseeably restrict access to tenements.

4.12 Environmental Conditions

The operations and proposed activities of the Company are environmentally sensitive and cannot be carried out without prior approval from and compliance with all requirements of the relevant environmental authorities. The Adelaide Hills and Flinders Ranges Project areas surround several conservation reserves which are excised from the tenements. Furthermore, the Company intends to conduct all of its activities in an environmentally responsible manner and in accordance with all relevant laws.

4.13 General Investment Risks

There is a risk that the price of Shares and returns to shareholders may be affected by changes in:

- a) local and world economic conditions;
- b) interest rates;
- c) levels of tax, taxation law and accounting practice;
- d) government legislation or intervention;
- e) inflation or inflationary expectations; and
- f) natural disasters, social upheaval or war in Australia or overseas.

5. EFFECT OF THE OFFERS

5.1 Capital Structure

The issued capital of the Company as at the date of this Prospectus and the pro forma issued capital after the issue of the New Shares and New Options under this Prospectus is set out below.

	As at the Prospectus Date	Assuming Full Subscription under the Rights Issue and the Placement Offer
Issued Shares	203,185,261#	485,070,522#
Issued Options*	175,653,644	457,538,905#

Approximately 1.3 million Shares are held by overseas holders who are not eligible to participate in the Rights Issue. Accordingly, these Shares are not taken into account in the pro forma issued capital assuming full subscription under the Rights Issue and the Placement Offer. Further, the pro forma issued capital in respect of the total number of issued Shares also does not take into account any Options that may be exercised prior to the Record Date in calculating the total number of Shares that may be issued under the Rights Issue.

* The Company has granted options whereby each option is exercisable for conversion into one ordinary share as follows:

Listed Option ASX Code	Expiry Date	Number	Exercise Price
FDLOA	29 September 2008 (listed)	99,853,978	\$0.10
FDLOC	17 June 2006 (listed)	74,724,666	\$0.05
-	14 March 2009 (unlisted)+	1,075,000	\$0.036

+ Granted under the Company's Employee Share Option Plan.

5.2 Pro forma statement of Financial Position

Set out below is the Historical Statement of Financial Position as at 30 June 2005 and as at 30 November 2005 together with an unaudited Pro-Forma Statement of Financial Position showing the net effect of the issue of New Shares and New Options under the Offers, as if these events have occurred on 30 November 2005 fully subscribed. For more information on the financial condition of the Company as at 30 June 2005, please refer to the 2005 Annual Report.

PRO FORMA STATEMENT OF FINANCIAL POSITION

AS AT 30 NOVEMBER 2005

FLINDERS DIAMONDS LIMITED

ACN 091 118 004

	30 June 2005	30 Nov 2005	Pro forma
	\$	\$	\$
CURRENT ASSETS			
Cash assets	500,303	257,591	4,359,591
Receivables	31,062	35,823	35,823
Other financial assets	4,000	4,000	4,000
Total Current Assets	535,365	297,414	4,399,414
NON-CURRENT ASSETS			
Exploration & Evaluation	6,065,618	6,357,751	6,357,751
Expenditure			
Plant and Equipment	110,007	98,884	98,884
Total Non-Current Assets	6,175,625	6,456,635	6,456,635
TOTAL ASSETS	6,710,990	6,754,049	10,856,049
CURRENT LIABILITIES			
Payables	92,069	104,371	104,371
Provisions	13,186	13,186	13,186
Total Current Liabilities	105,255	117,557	117,557
NON-CURRENT LIABILITIES			
Provisions	15,783	15,783	15,783
Total Non-Current Liabilities	15,783	15,783	15,783
TOTAL LIABILITIES	121,038	133,340	133,340
NET ASSETS	6,589,952	6,620,709	10,722,709
EQUITY			
Contributed equity	9,709,887	10,132,734	14,234,734
Retained losses	(3,119,935)	(3,512,025)	(3,512,025)
TOTAL EQUITY	6,589,952	6,620,709	10,722,709

The above statement of financial position should be read in conjunction with the accompanying notes set out below.

NOTES TO PROFORMA HISTORICAL STATEMENT OF FINANCIAL POSITION

AS AT 30 NOVEMBER 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Report is a general purpose financial report prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The Historical Financial Report covers the economic entity of Flinders Diamonds Ltd which is a company limited by shares, incorporated and domiciled in Australia.

The Historical Financial Report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the Historical Financial Report. The accounting policies have been consistently applied, unless otherwise stated.

Revenue Recognition

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Income Tax

Income tax is brought to account using a method of tax effect accounting whereby income tax expense for the period is calculated on the accounting profit after adjusting for items which, as a result of their treatment under income tax legislation, create permanent differences between that profit and the taxable income.

The tax effect of timing differences which arises from the recognition in the accounts of items of revenue and

expenses in periods different from those in which they are assessable or allowable for income tax purposes, are represented in the statement of financial position as "future income tax benefits" or "provision for deferred income tax", as the case may be at current tax rates. A future income tax benefit is only carried forward as an asset where realisation of the benefit can be regarded as being assured beyond reasonable doubt.

Foreign Currency

Amounts payable or receivable in foreign currency in the consolidated accounts are recognised at the exchange rate prevailing on balance date.

Receivables

Receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

Accounts Payable

Trade and other payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, and long service leave expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of wages and salaries, annual leave, and long service leave which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest. This expenditure is comprised of net direct costs and an appropriate portion of related overhead expenditure.

Identifiable exploration assets acquired are recognised as assets at their cost of acquisition.

Recoupment of exploration and evaluation expenditure is dependent on successful development and commercial exploitation or alternatively sale of the respective areas of interest. These costs are written off when their ultimate recoupment is not reasonably assured.

Capital Raising Costs

In accordance with Urgent Issues Group Abstract 23, the company has determined that relevant costs associated with the raising of capital are to be offset directly against contributed equity. These costs include professional advisers' fees related to the intended capital raising but do not include management time and overheads

NOTE 2: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The company will be 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 will be for the half-year reporting period ending 31 December 2005, and its first annual financial report prepared under A-IFRS will be for the year ending 30 June 2006.

The company has recently commenced the process of evaluating the high level impact of A-IFRS on the company and consequently has not yet finalised how it is going to manage the transition to A-IFRS. The directors expect to complete the impact study and commence a plan to prepare the company to be A-IFRS compliant shortly.

While no decision has yet been made as to the policy alternatives to be applied or the extent to which it will affect the company, the directors have identified the following as being the key accounting policy differences expected to arise on transitioning to A-IFRS. This does not represent an exhaustive list of the differences that will arise, and further analysis may change the company's assessment of the importance or otherwise of the various differences.

First-time adoption of A-IFRS

On first-time adoption of A-IFRS, the company will be required to restate its comparative balance sheet such that the comparative balances presented comply with the requirements specified in the A-IFRS. That is, the balances that will be presented in the financial report for the half-year ending 31 December 2005 and year ending 30 June 2005 may not be the balances that will be presented as comparative numbers in the financial report for the following half year, and year end, as a result of the requirement to retrospectively apply the A-IFRS. In addition, certain assets and liabilities may not qualify for recognition under A-IFRS, and will need to be derecognised. Required adjustments on first-time adoption are to be made against opening retained earnings (1 July 2005).

Capitalised Exploration and Development Expenditure

An A-IFRS on extractive industries has not yet been issued. Consequently, the company is unable to determine the change in policies and related impacts, if any, that may arise on adoption of A-IFRS on its extractive-related operations and balances at reporting date.

Impairment testing

Under A-IFRS all current and non-current assets will be subject to impairment testing. The company will be required to test the values attributed to assets where impairment is indicated. Such testing will require 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 will be recognised in the statement of income. The company has not yet determined the impact, if any, of any impairment which may be required. It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.

Income tax

The company currently 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. As A-IFRS has a wider scope than the entity's current accounting policies, it is likely that the amount of deferred taxes recognised in the balance sheet will increase.

Adjustments to the recognised amounts of deferred taxes will also result as a consequence of adjustments to the carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on deferred tax balances has not currently been determined.

Financial assets and financial liabilities

Under current Australian Generally Accepted Accounting Principles (GAAP), financial assets and financial liabilities are recognised at cost, at fair value, or at net market value. On adoption of A-IFRS, the company

will be required to classify these financial instruments into various specified categories. The classification of the instrument will affect the instrument's subsequent measurement – at amortised cost using the effective interest rate method, fair value with movements recognised through equity or fair value recognised through the profit and loss. The company is evaluating the different options available, but has not made any determination at reporting date of the accounting to be adopted, and consequently, the impact of the change on the financial statements cannot yet be quantified.

Share-based payments

Share-based compensation forms part of the remuneration of executives, employees and consultants of the company. The company does not recognise an expense for any share-based compensation granted. Under A-IFRS, the consolidated entity will be required to recognise an expense for such share-based compensation. Share-based compensation will be measured at the fair value of the share options determined at grant date. The entity will not retrospectively recognise share-based payments vested before 1 January 2005 as permitted under A-IFRS first time adoption. Post 1 January 2005, for any share-based compensation granted the consolidated entity will recognise an expense and a corresponding increase in share capital.

NOTE 3: COSTS OF THE ISSUE

Funds raised	\$ 4,227,000
Expenses associated with the Offers:	
Legal Fees	\$ 20,000
Shareholder Mailout	\$ 6,000
Share Registry Fees	\$ 5,000
ASX Listing Fees*	\$ 25,000
Management Fee*	\$ 42,000
Brokerage*	\$ 100,000
Total Expenses of the Offers	\$ 198,000

* These costs will vary according to the amount subscribed under the Rights Issue and the Placement Offer.

6. RIGHTS AND LIABILITIES ATTACHING TO SHARES

Full details of the rights and liabilities attaching to the New Shares and existing Shares are set out in the Company's constitution (Constitution), a copy of which can be inspected at the Company's registered office during normal business hours. A broad summary (although not an exhaustive or definitive statement) of the rights and liabilities attaching to the New Shares and existing Shares is outlined below. All New Shares issued under this Prospectus are of the same class and rank equally in all respects with the existing Shares on issue.

6.1 Voting

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at a general meeting of the Company every holder of fully paid ordinary shares present in person or by an attorney, representative or proxy has one vote on a show of hands (unless a member has appointed two proxies) and one vote per share on a poll. A person who holds an ordinary share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share. Where there are two or more joint holders of the share and more than one of them is present at a meeting and tenders a vote in respect of the share, the Company will count only the vote cast by the member whose name appears first in the Company's register of members.

6.2 Issues of further shares

The Directors may, on behalf of the Company, issue, grant options over or otherwise dispose of unissued shares to any person on the terms, with the rights, and at the times that the Directors decide. However, the Directors must act in accordance with the restrictions imposed by the Constitution, the ASX Listing Rules, the Corporations Act and any rights for the time being attached to the shares in special classes of shares.

6.3 Variation of rights

At present, the Company has on issue one class of shares only, namely ordinary shares. Unless otherwise provided by the Constitution or by the terms of issue of a class of shares, the rights attached to the shares in any class may be varied or cancelled only with the written consent of the holders of at least three quarters of the issued shares of the affected class, or by special resolution passed at a separate meeting of the holders of the issued shares of the affected class.

6.4 Transfer of Shares

Subject to the Constitution, the Corporations Act and the ASX Listing Rules, ordinary shares are freely transferable.

The shares may be transferred by a proper transfer effected in accordance with the ATSC Business Rules, by any other method of transferring or dealing introduced by the ASX and as otherwise permitted by the Corporations Act or by a written instrument of transfer in any usual form or in any other form approved by either the Directors or the ASX that is permitted by the Corporations Act. The Directors may decline to register a transfer of shares (other than a proper transfer in accordance with the ATSC Business Rules) where permitted to do so under the ASX Listing Rules. If the Directors decline to register a transfer, the Company must, within five business days after the transfer is delivered to the Company, give the party lodging the transfer written notice of the refusal and the reason for the refusal. The Directors must decline to register a transfer of shares when required by law, by the ASX Listing Rules or by the ATSC Business Rules.

6.5 Partly Paid Shares

The Directors may, subject to compliance with the Constitution, the Corporations Act and the ASX Listing Rules, issue partly paid shares upon which there are outstanding amounts payable. Such shares will have limited rights to vote and to receive dividends.

6.6 Dividends

The Directors may from time to time determine dividends to be distributed to members according to their rights and interests, The Directors may fix the time for distribution and the methods of distribution. Subject to the terms of issue of shares, the Company may pay a dividend on one class of shares to the exclusion of another class.

Each Share carries the right to participate in the dividend in the same proportion that the amount for the time being paid on the Share (excluding any amount paid in advance of calls) bears to the total issue price of the Shares.

6.7 Winding Up

Subject to the rights of holders of shares with special rights in a winding up, if the Company is wound up, members will be entitled to participate in any surplus assets of the Company in proportion to the percentage of the capital paid up on their shares when the winding up begins.

6.8 Share Plans

The members of the Company, in general meeting, may authorise the Directors to implement and maintain dividend reinvestment plans (under which any member may elect that dividends payable by the Company be reinvested by way of subscription for fully paid shares in the Company) and any other share plans (under which any member may elect to forego any dividends that may be payable on all or some of the shares held by that member and to receive instead some other entitlement, including the issue of fully paid shares).

6.9 Directors

The Constitution states that the minimum number of Directors is three.

6.10 Powers of the Board

Except as otherwise required by the Corporations Act, any other law, the ASX Listing Rules or the Constitution, the Directors have power to manage the business of the Company and may exercise every right, power or privilege of the Company to the exclusion of the members.

6.11 Officers Indemnity

The Company, to the extent permitted by law, indemnifies each Director and other officer of the Company (and any person who has previously served in any of those capacities) against any loss or liability incurred by the person in his/her capacity as an officer of the Company, provided that the liability is not owed to the Company or its related bodies corporate and has not arisen out of conduct involving a lack of good faith. The Company also indemnifies such persons, to the extent permitted by law, against liability for costs and expenses incurred in successfully defending proceedings or in connection with an application in relation to such proceedings in which the Court grants relief to the person under the Corporations Act.

The Company, to the extent permitted by law, may insure a Director, or other officer of the Company against a liability incurred by the person in the persons relevant capacity, in the course of acting in connection with the affairs of the Company or a subsidiary or arising out of the person holding office, unless the liability arises out of conduct involving a wilful breach of duty in relation to the Company or a contravention of sections 182 or 183 of the Corporations Act. The Company may also insure such person for costs and expenses incurred by such person in defending or resisting proceedings whatever the outcome.

6.12 Share Buy-Backs

subject to the provisions of the Corporations Act and the ASX Listing Rules, the Company may buy-back shares in itself on terms and at times determined by the Directors.

7. TERMS AND CONDITIONS OF OPTIONS

The New Options will be issued on the following terms and conditions:

1. Entitlement to ordinary shares

The Optionholder is entitled on payment of \$0.10 per share (Exercise Price) to be allotted one ordinary fully paid share in the Company for each Option exercised (subject to possible adjustments referred to below).

2. Exercise Period

The Options held by the Optionholder are exercisable in whole or in part (subject to paragraph 4 below), at any time on or before 29 September 2008 (Exercise Period). Reminder notices will be forwarded to the Optionholder prior to the expiry of the Exercise Period. Options not exercised before the expiry of the Exercise Period will lapse.

3. Register of Optionholders

The Options will be recorded on the Company's Register of Optionholders maintained in Adelaide. The Register will be open for inspection by Optionholders free of charge. Shares to be allotted on exercise of Options will be recorded on the Company's share registry.

4. Method of Exercise of Options

Options are exercisable by the Optionholder completing and signing a Notice of Exercise of Options in the form set out below and lodging it at the office of the Company's share registry, Computershare Investor Services Pty Ltd, Level 5, 115 Grenfell Street, Adelaide, South Australia 5000 together with payment of the Exercise Price. A notice of Exercise of Options will only be effective when the Company has received the full amount of the Exercise Price in cleared funds. Options exercised during a month will be deemed to have

been exercised on the last business day of the month. The minimum number of Options which may be exercised at any time is a marketable parcel except where less than a marketable parcel is held in which case all options must be exercised.

Notice of Exercise of Options

To: The Directors of Flinders Diamonds Limited

I/We.....

being the undersigned registered holders of [] Options, each to acquire an ordinary fully paid share in the capital of Flinders Diamonds Limited at a price of \$[] per share payable in full on the exercise date, hereby give notice of exercise of [] Options and attach hereto my/our cheque in the sum of \$[]. I/We agree to my/our name being placed on the Register of Members in respect of the number of shares allotted and agree to be bound by the Constitution of Flinders Diamonds Limited.

Usual Signature(s).....

Date.....

NB: Joint holders must all sign. Corporations must execute in a manner authorised by the *Corporations Act 2001* (Cth)

5. Shares allotted on exercise

The Company will make application for official quotation on the ASX of Shares allotted on exercise of the Options. Those Shares will participate equally in all respects with existing issued ordinary shares. Options do not carry any dividend entitlement. Shares allotted on exercise of Options will qualify for dividends declared after the date of their allotment.

6. Placement Issues

An Optionholder may only participate in placement issues of securities to holders of ordinary shares in the Company if the Option has been exercised and shares allotted in respect of the Option before the record date for determining entitlements to the issue. The Company must give prior notice to Optionholders of any placement issue before the record date for determining entitlements to the issue. The Company must give prior notice to Optionholders of any placement issue before the record date for determining entitlements to the issue in accordance with the ASX Listing Rules.

7. Pro Rata Issues

If between the date of issue and the date of exercise of an Option the Company makes a rights issue (being a pro rata issue of ordinary shares in the capital of the company that is not a bonus issue), the exercise price of Options on issue will be reduced according to the following formula:

$$A = O - E(P - (S + D)) / (N + 1)$$

Where:

A = the new exercise price of the Option;

O = the old exercise price of the Option;

E = the number of underlying ordinary shares into which one option is exercisable;

P = the average closing sale price per ordinary share (weighted by reference to volume) recorded on the stock market of ASX during the 5 trading days ending on the day before the ex rights date or ex entitlements date (excluding special crossings and overnight sales);

S = the subscription price for an ordinary share under the pro rata issue;

D = the dividend due but not yet paid on each ordinary share at the relevant time (except those to be issued under the pro rata issue); and

N = the number of ordinary shares which must be held to entitle holders to receive a right to one new ordinary share in the pro rata issue.

8. Bonus Issue

If there is a bonus issue to the holders of ordinary shares in the capital of the Company, the number of ordinary shares over which the Option is exercisable will be increased by the number of ordinary shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.

9. Reorganisation of capital

If, during the currency of the Options the capital of the Company is reorganised, the rights attaching to the Options will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

10. Transfer

Options may be transferred or transmitted at any time prior to their expiry and same will be recorded on the Company's Register of Optionholders.

11. Meetings

Optionholders appearing on the Company's register of Optionholders at the relevant date will be entitled to receive and will be sent all reports and accounts required to be laid before shareholders in general meeting and all notices of general meetings and will have the right to attend but shall have no right to vote at such meetings.

8. ADDITIONAL INFORMATION

8.1 Interests of Directors

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is or was partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- a) the formation or promotion of the Company;
- b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers; or
- c) the Offers,

and no amounts have been paid or agreed to be paid (whether in cash or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce that person to become, or to qualify as, a Director or otherwise for services rendered by that person or by the firm in connection with the promotion or formation of the Company or the Offers.

Directors' Remuneration

The remuneration or other amounts paid to Directors and their related entities for the year ended 30 June 2005 is set out below:

	Salary & Fees \$	Superannuation \$	Equity \$	Other Benefits \$	Total \$
R M Kennedy	68,400	6,600	-	-	75,000
K J A Wills	128,100	11,448	-	-	139,548
E J Vickery	27,852	-	-	-	27,852
M R Billing (alternate for Dr Wills)	-	-	-	-	-
G M May (alternate for Mr Vickery)	8,750	-	-	-	8,750

Security Holdings

Set out below are details of the interests of the Directors, either directly or indirectly or beneficially, in the securities of the Company as at the Prospectus Date:

Director	Shares	Options
Mr R M Kennedy	7,889,042	2,239,000
Dr K J A Wills	6,458,000	2,625,000
Mr E J Vickery	352,696	113,932
Mr M R Billing (alternate to Dr Wills)	770,000	300,000
Mr G M May (alternate for Mr Vickery)	342,696	113,932

Transactions with director-related entities

Minter Ellison, a legal firm of which Mr Vickery and Mr May are partners, received fees of \$1,602 for the provision of legal services.

MBB Trading Pty Ltd, an entity in which Mr Billing is a director received fees of \$25,300 for the provision of company secretarial and accounting services.

8.2 Interests of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no promoter nor any other person named in this Prospectus as performing a function in a professional, advisory or other capacity (Relevant Persons) in connection with preparation or distribution of this Prospectus, nor any firm in which any of those Relevant Persons is or was a partner, nor any company with which any of those persons is or was associated, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- a) the formation or promotion of the Company;
- b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers; or
- c) the Offers,

and no amounts have been paid or agreed to be paid (whether in cash or otherwise) to any Relevant Persons or to any firm or company in which any Relevant Person is a partner, for services rendered by that Relevant Person or by the firm or company in connection with the promotion or formation of the Company or the Offers.

DMAW Lawyers has acted as legal adviser in respect of the Offers. In aggregate, the Company has paid or agreed to pay DMAW Lawyers approximately \$20,000 (plus disbursements) for these services. Further amounts may be paid to DMAW Lawyers in accordance with its normal time based charges.

Rundle Capital Partners Limited has acted as corporate adviser in respect of the Offer for a 1% management fee and is also entitled to a 5% cent brokerage fee on successful Applications bearing Rundle Capital Partners Limited's stamp (refer to section 2.9).

8.3 Expenses of the Offer

The total expenses connected with the Offers, including legal and other advisory fees, listing, printing and other miscellaneous expenses are estimated to be approximately \$198,000 based on full subscription of the Offers.

8.4 Consent

The people and other entities set out below have given and as at the Prospectus Date had not withdrawn their written consent as set out below:

Each of the following has consented (and has not withdrawn such consent prior to lodgement of this Prospectus with the ASIC) to being named in this Prospectus:

- a) DMAW Lawyers, to being named in this Prospectus as the solicitors to the Company;
- b) Computershare Investor Services Pty Ltd, to being named in this Prospectus as the Company's share registry;
- c) Rundle Capital Partners Limited, to be named in this Prospectus as the corporate adviser to the Company.

None of the parties listed above have caused the issue of this Prospectus and, to the maximum extent permitted by law, expressly disclaims, and takes no responsibility for any part of, this Prospectus, other than the reference to its name in this Prospectus.

9. DEFINITIONS

In this Prospectus, unless the context otherwise requires:

\$ means Australian dollars (and references to cents are to Australian cents);

Applicant means a person who submits a valid Application;

Application means a valid application for New Shares under this Prospectus;

Application Form means:

- a) in respect of the Rights Issue, the Entitlement and Acceptance Form;
- b) in respect of any shortfalls in subscription under the Rights Issue, the Shortfall Application Form; and
- c) in respect of the Placement Offer, the Placement Application Form;

Application Money means the money payable on Application;

ASIC means the Australian Securities and Investments Commission;

ASX means Australian Stock Exchange Limited (ABN 98 008 624 691);

ASX Listing Rules means the official Listing Rules of the ASX;

Closing Date means close of business on 24 February 2006 or such other date as the Directors may determine;

Company means Flinders Diamonds Limited ACN 091118 044;

Corporations Act means Corporations Act 2001 (Cth);

Director(s) means the director(s) of the Company;

Eligible Shareholder means a registered holder of Shares as at close of business on 25 January 2006 whose registered address is in Australia or New Zealand;

Entitlement and Acceptance Form means a personalised entitlement and acceptance form for Eligible Shareholders accompanying this Prospectus and relating to the Rights Issue;

Existing Shares means Shares issued before close of business on 25 January 2006;

General Meeting means the general meeting of Shareholders at which the Company will seek Shareholder approval under ASX Listing Rule 7.1 of the issue of additional New Shares pursuant to the Placement Offer;

Issue means the issue of New Shares and New Options under this Prospectus;

Issue Price means \$0.015 per New Share;

New Options means the Options to be issued under this Prospectus pursuant to the Offers;

New Shares means Shares issued pursuant to the Rights Issue and the Placement Offer;

Offers means the Rights Issue and the Placement Offer;

Options means options to subscribe for Shares on the terms summarised in section 7 of this Prospectus;

Placement Application Form means an Application Form accompanying this Prospectus and relating to the Placement Offer;

Placement Offer means the invitation to investors to subscribe for New Shares and New Options, as described in section 2.3 of this Prospectus;

Prospectus means this document dated 17 January 2006; **Prospectus Date** means the date appearing on the cover of this Prospectus;

Record Date means the record date to determine the Shareholders entitled to participate in the Rights Issue, being close of business on 25 January 2006;

Rights means the right of an Eligible Shareholder to subscribe for one New Share for every one Existing Share held as at the Record Date under the Rights Issue;

Rights Issue means the non-renounceable rights issue of New Shares and New Options, as described in section 2.2 of this Prospectus;

Shareholder(s) means a holder of Share(s);

Share(s) means fully paid ordinary share(s) in the Company; and

Shortform Application means an application form relating to shortfalls in subscriptions under the Rights Issue to be provided to investors other than Eligible Shareholders on request.

10. DIRECTORS' AUTHORISATION

Each Director has consented to the lodgment and issue of this Prospectus.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'K Wills', followed by a period.

Kevin Wills
Managing Director

How to complete the Rights Issue Application Form (including Additional Securities)

Please note that photocopies of this form will not be accepted. These instructions are cross-referenced to each section of the Rights Issue Application Form.

A Details of your Entitlement based on your Securityholding at close of business Adelaide time on 25 January 2006 are shown in box A on the front of this

B Entitlement Form.
New Securities Applied for

You can apply to accept either all or part of your Entitlement. Enter in box B the number of New Shares you wish to accept from your Entitlement.

Please ensure you complete Section B on the bottom of the form.

C **Additional Securities Applied for**

Enter the number of additional New Shares you wish to apply for (if any).

No Eligible Securityholder is assured of receiving any New Share as applied for in excess of their Entitlement and any amount by which applications from Eligible Securityholders exceed their Entitlements may be scaled back at Flinders Diamond Limited's discretion, in such manner as Flinders Diamond Limited considers is reasonable in the circumstances.

Please ensure you complete Section C on the bottom of the form.

D **Acceptance Monies**

Enter the total amount of acceptance monies payable. To calculate this amount, multiply the total number of New Shares applied for in box B, and if applicable, box C, by A\$0.015

Please ensure you complete Section D on the bottom of the form.

E **Payment Details**

Your payment must be made by cheque. Your cheque, money order or bank draft must be made in Australian currency and drawn on an Australian branch of a financial institution. Such payment must be made payable to Flinders Diamonds Limited Share Offer Account and crossed "Not Negotiable". Payments not properly drawn may be rejected.

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Acceptance form being rejected. Pin (do not staple) your cheque(s) to the form where indicated. Cash will not be accepted. Receipt of payment will not be forwarded.

F **Contact Details**

Enter the name of a contact person and telephone number. These details will only be used in the event that the registry has a query regarding this form.

The directors reserve the right to make amendments to this form where appropriate.

Lodgement of Acceptance

If you are paying by cheque or bank draft, your Rights Issue Application Form must be received at the Adelaide office of Computershare Investor Services Pty Limited (CIS) by no later than 5.00 pm Adelaide time on Friday 24 February 2006. You should allow sufficient time for this to occur. A reply paid envelope is enclosed for securityholders in Australia. **<New Zealand holders will need to affix the appropriate postage>**. Return your Application Form with cheque to either of the addresses listed below.

Privacy Statement

Personal information is collected on this form by CIS, as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or E-mail privacy@computershare.com.au

If you have any enquiries concerning your entitlement, please contact CIS on 1300 556 161

This form may not be used to notify your change of address. For information, please contact CIS on **1300 556 161** or www.computershare.com (Issuer Sponsored Holders only).

CHES holders must contact their Controlling Participant to notify a change of address.

Payment Options:



By Mail
Flinders Diamonds Limited
Computershare Investor
Services Pty Limited
GPO BOX 1903
Adelaide, South Australia 5001
AUSTRALIA



In Person
Computershare Investor
Services Pty Limited
Level 5
115 Grenfell Street
Adelaide, South Australia 5000



Entitlement Number: <xxxxxxxxx>

SAMPLE CUSTOMER
SAMPLE STREET
SAMPLE STREET
SAMPLE STREET
SAMPLE STREET
SAMPLETOWN TAS 7000

SHORTFALL APPLICATION FORM

THIS DOCUMENT IS IMPORTANT. IF YOU ARE IN DOUBT AS TO HOW TO DEAL WITH IT, PLEASE FEEL FREE TO CONTACT
FLINDERS DIAMONDS LIMITED OR YOUR FINANCIAL ADVISOR

FLINDERS DIAMONDS LIMITED

SHARE REGISTRY

Computershare Investor Services Pty Limited, Level 5, 115 Grenfell Street, ADELAIDE S.A. 5000

Closing at 5.00pm Adelaide time on Friday 24 February 2006

Shareholder Identification Number/ Shareholder Reference Number	
Sub-Register	

No. of Shares to be taken up	Amount enclosed @ 1.5 cents per New Share

**PLEASE ENTER
CHEQUE DETAILS**

Drawer	Bank	Branch	Amount

My/Our contact numbers in the case of enquiry are: Telephone:..... Fax:.....

NOTE: Cheques should be made payable to **FLINDERS DIAMONDS LIMITED Share Offer Account**, and crossed "NOT NEGOTIABLE" and forwarded to Computershare Investor Services Pty Limited, Level 5, 115 Grenfell Street, Adelaide, S.A. 5000 to arrive no later than 5.00pm Adelaide time on Friday 24 February 2006

To the Directors
FLINDERS DIAMONDS LIMITED

1. I/We the above mentioned, being registered on the Wednesday 25 January 2006, the holder(s) of Shares in your Company hereby accept the Shares issued in accordance with the enclosed Prospectus;
2. I/We enclose my/our cheque made payable to **FLINDERS DIAMONDS LIMITED Share Offer Account**, and crossed Not Negotiable, for the amount shown being payment at the rate of 1.5 cents per New Share;
3. I/We hereby authorise you to place my/our name(s) on the register of shareholders in respect of the number of New Shares allotted to me/us and;
4. I/We agree to be bound by the Constitution of the Company.

RETURN OF THIS DOCUMENT WITH THE REQUIRED REMITTANCE WILL CONSTITUTE YOUR ACCEPTANCE
OF THE SECURITIES BEING OFFERED SUBJECT TO THE RECEIPT OF CLEARED FUNDS

ISSUER SPONSORED HOLDERS, IF A CHANGE OF ADDRESS IS TO BE RECORDED, PLEASE COMPLETE THE BOX BELOW.

New Address: Signature(s): Date: Please indicate your correct title : Director / Secretary /
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CHESS HOLDERS, PLEASE SEND ANY CHANGE OF ADDRESS OR CORRECTION TO SHAREHOLDER'S NAME TO YOUR SPONSORING PARTICIPANT.

ISSUE CLOSES 5.00PM ON Friday 24 February 2006

INSTRUCTIONS ON COMPLETING THIS FORM

1. By accepting this offer in whole or in part, you are agreeing to be bound by the Constitution of the Company and consenting to have your name placed on the register of shareholders in respect of the number of New Shares allotted to you.
2. The issue price of 1.5 cents per New Share is payable in full upon application.
3. Payments must be made in Australian currency by cheque or bank draft drawn and payable at a bank within Australia. Cheques or bank drafts drawn on banks outside Australia in either Australian currency or in foreign currency will not be accepted.
4. The cheques must be made payable to "**FLINDERS DIAMONDS LIMITED Share Offer Account**", be crossed "**Not Negotiable**".
5. 6. When completed, this Form together with the appropriate payment in Australian currency should be forwarded to FLINDERS DIAMONDS LIMITED c/o Computershare Investor Services Pty Limited.
7. Applications must be returned to Computershare Investor Services Pty Limited, GPO Box 1903, Adelaide SA 5001.
8. Acceptances must be received by Computershare Investor Services Pty Limited no later than 5.00 pm Adelaide Time on Friday 24 February 2006.
9. Before completing this Form, the Prospectus should be read carefully.
10. This Form will not be valid if another name is substituted for the name printed on the Form.

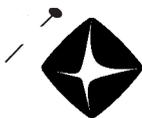
ENQUIRIES

Any enquiries as to how to deal with this Form can be directed to the Company's Share Registry.

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

Telephone: 1300 556 161 Facsimile: (08) 8236 2305



PLACEMENT OFFER APPLICATION FORM

FLINDERS
DIAMONDS

Flinders Diamonds Limited

ABN 46 091 118 044

This Application Form is important. If you are in doubt as to how to deal with it, please contact your stockbroker or professional adviser without delay. You should read the entire prospectus carefully before completing this form. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the prospectus.

Registry Use Only

Broker Code

Adviser Code

A I/we apply for

Number of Shares in Flinders Diamonds Limited at \$0.015 per Share or such lesser number of Shares which may be allocated to me/us plus one free attaching option

B I/we lodge full Application Money

C Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)

Title or Company Name	Given Name(s)	Surname
<input type="text"/>	<input type="text"/>	<input type="text"/>

Joint Applicant 2 or Account Designation
<input type="text"/>

Joint Applicant 3 or Account Designation
<input type="text"/>

Enter your postal address - Include State and Postcode

Unit	Street Number	Street Name or PO Box /Other Information
<input type="text"/>	<input type="text"/>	<input type="text"/>

City / Suburb / Town	State	Postcode
<input type="text"/>	<input type="text"/>	<input type="text"/>

E Enter your contact details

F CHESS Participant

Please note that if you supply a CHESS HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN, and any securities issued as a result of the IPO will be held on the Issuer Sponsored subregister.

Cheque details - Make your cheque or bank draft payable to Flinders Diamonds Limited Share Offer Account

Drawer	Cheque Number	BSB Number	Account Number	Amount of cheque
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	A\$ <input type="text"/>
Drawer	Cheque Number	BSB Number	Account Number	Amount of cheque
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	A\$ <input type="text"/>

By submitting this Application Form, I/we declare that this application is completed and lodged according to the Prospectus and the declarations/statements on the reverse of this Application form and I/we declare that all details and statements made by me/us (including the declaration on the reverse of this Application Form) are complete and accurate. I/we agree to be bound by the Constitution of the Company.



How to complete this form

A Shares Applied for

Enter the number of Shares you wish to apply for. The application must be for a minimum of 60,000 Shares. Applications for greater than 60,000 Shares must be in multiples of 2,000 Shares.

B Application Monies

Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares by the price per Share.

C Applicant Name(s)

Enter the full name you wish to appear on the statement of share holding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in the CHES system.

D Postal Address

Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

E Contact Details

Enter your contact details. These are not compulsory but will assist us if we need to contact you.

F CHES

Flinders Diamonds Limited (the Company) will apply to the ASX to participate in CHES, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Stock Exchange Limited. In CHES, the company will operate an electronic CHES Subregister of security holdings and an electronic Issuer Sponsored Subregister of security holdings. Together the two Subregisters will make up the Company's principal register of securities. The Company will not be issuing certificates to applicants in respect of Shares allotted. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold Shares allotted to you under this Application on the CHES Subregister, enter your CHES HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

G Payment

Make your cheque or bank draft payable to Flinders Diamonds Limited Share Offer Account in Australian currency and cross it Not Negotiable. Your cheque or bank draft must be drawn on an Australian Bank.

Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B.

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected. Pin (do not staple) your cheque(s) to the Application Form where indicated. Cash will not be accepted. Receipt for payment will not be forwarded.

Before completing the Application Form the applicant(s) should read this prospectus to which this application relates. By lodging the Application Form, the applicant agrees that this application for Shares in Flinders Diamonds Limited is upon and subject to the terms of the prospectus and the Constitution of Flinders Diamonds Limited, agrees to take any number of Shares that may be allotted to the Applicant(s) pursuant to the prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Application

Application Forms must be received at the Adelaide office of Computershare Investor Services Pty Limited by no later than 5.00 pm Adelaide time on Friday 24 February 2006. Return the Application Form with cheque(s) attached to:

Computershare Investor Services Pty Limited OR Computershare Investor Services Pty Limited
GPO Box 1903 Level 5
ADELAIDE SA 5001 115 Grenfell Street
ADELAIDE SA 5000

Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited ("CIS"), as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or E-mail privacy@computershare.com.au

If you have any enquiries concerning your application, please contact the Computershare Investor Services Pty Limited on 1300 556 161.

Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold Shares. Applications must be made in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and the surname is required for each natural person. The name of the beneficial owner or any other registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable title(s) below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual - Use given name(s) in full, not initials	Mr John Alfred Smith	J.A Smith
Joint - Use given name(s) in full, not initials	Mr John Alfred Smith & Mrs Janet Marie Smith	John Alfred & Janet Marie Smith
Company - Use company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
Trusts - Use trustee(s) personal name(s) - Do not use the name of the trust	Ms Penny Smith <Penny Smith Family A/C>	Penny Smith Family Trust
Deceased Estates - Use executor(s) personal name(s) - Do not use the name of the deceased	Mr Michael Smith <Est John Smith A/C>	Estate of Late John Smith
Minor (a person under the age of 18) - Use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter Smith A/C>	Peter Smith
Partnerships - Use partners personal name(s) - Do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith & Son A/C>	John Smith & Son
Clubs/Unincorporated Bodies/Business Names - Use office bearer(s) personal name(s) - Do not use the name of the club etc	Mrs Janet Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds - Use the name of trustee of the fund - Do not use the name of the fund	John Smith Pty Ltd <Super Fund A/C>	John Smith Pty Ltd Superannuation Fund

ASX AASXAAA IPO



FLINDERS
DIAMONDS