



Quarterly Report

Period ending 30 June 2006

HIGHLIGHTS

Flinders Ranges Project, SA

- Six of eight 100 tonne kimberlite bulk samples treated with first results expected in early August
- Two kimberlite pipes at the Franklyn Target being bulk-sampled
- 25 new kimberlite bodies having their diamond content assessed in Canada

G2 Project, SA

- G2 drilling to commence in first week of August

Eromanga Uranium Limited's IPO

- Flinders Diamonds shareholders to receive a priority offer in the float of Eromanga Uranium Limited

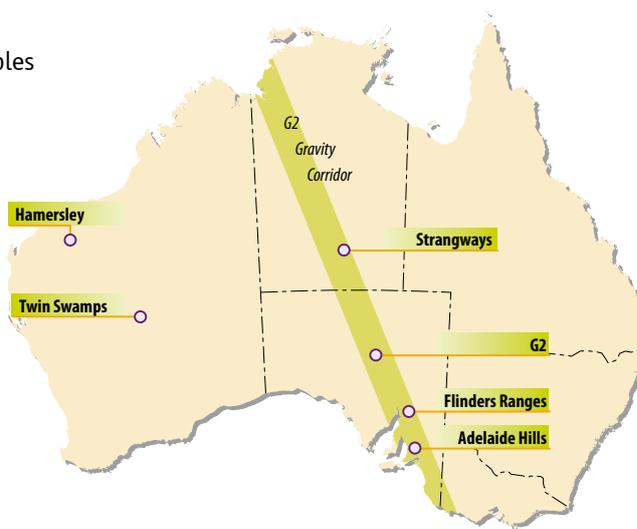


Figure 1 Flinders Diamonds Project Locations

EXPLORATION ACTIVITIES REVIEW

Recent Activities

In the second quarter of 2006, Flinders Diamonds Limited's (Flinders) diamond exploration Australia wide (Figure 1) has been dominated by activity on the Flinders Ranges Project. The period has seen Flinders' first program of bulk sampling which is an important milestone in the company's quest to discover an economically viable diamond deposit. Six of eight 100 tonne kimberlite samples have been treated and the resulting heavy mineral concentrates are being processed by X-Ray diamond recovery in Perth. The first results should become available in early August. The anticipated recovery of macrodiamonds should underscore the project's potential and enable better

decisions on which kimberlites to bulk sample in future.

Twenty-five new kimberlite discoveries are currently having their diamond content assessed in Canada and are expected to lead to further sites for bulk sampling. The current plan is to have the plant available for another round of bulk sampling later in 2006. Meanwhile, activities to follow up additional helimag targets with ground magnetic surveys and trenching have recommenced. It is anticipated that a large number of new kimberlite pipes will be located during the remainder of 2006.

Contact us

Flinders Diamonds Limited ABN 46 091 118 044

20 Boskenna Avenue telephone 61 8 8362 5900
Norwood South Australia 5067 facsimile 61 8 8362 5966

PO Box 3126
Norwood South Australia 5067

email info@flindersdiamonds.com
www.flindersdiamonds.com

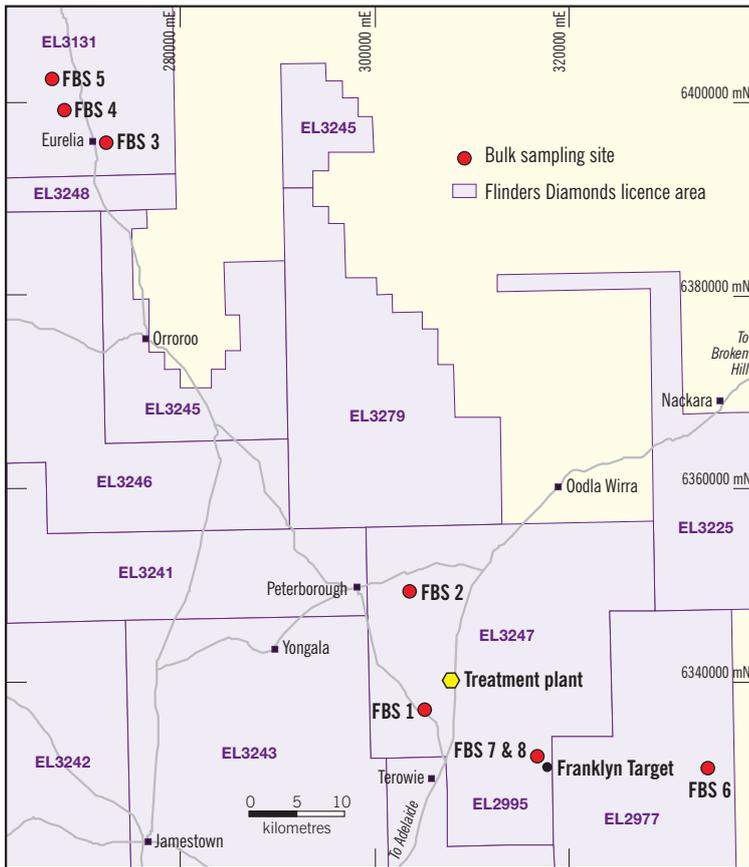


Figure 2 Bulk sample and treatment plant locations.

SOUTH AUSTRALIA Flinders Ranges Project

FDL holds 100% of the mineral rights in Springfield and Jamestown Projects and can purchase 100% of diamond rights in Nackara Project. Two new exploration licence applications (ELA 11/06 and ELA 264/06) have been made in the Nackara area and are shown on Figure 9.

Bulk Samples Collected

During June and early July, eight 100 tonne samples of diamondiferous kimberlite were collected and transported to the bulk sample treatment site. Locations of each kimberlite sample FBS 1 to FBS 8 and the location of the treatment plant are shown on Figure 2. Samples were excavated and transported by truck prior to backfilling each trench with waste rock and site rehabilitation. Figure 3 shows sample FBS 5 being collected. Six of the eight



Figure 3 Collection of bulk sample FBS 2.



Figure 4 Bulk sample treatment site.



Figure 5 Flinders Board visiting the bulk sample treatment site on 24 July 2006.

samples chosen had positive microdiamond concentrations from determinations to date, and the others were from the Franklyn Target.

Bulk Sample Treatment

Bulk sample treatment commenced on 22 June and is ongoing. It is taking an average of about 5 days to treat each 100 tonne sample and

it is anticipated that all samples will be treated by the second week in August. A view of the treatment site is shown in Figure 4. The treatment process produces a heavy mineral concentrate of about 100 kilograms from each 100 tonne bulk sample. These concentrates are split into four size fractions and then sent to a specialist X-Ray sorting laboratory in Perth for

diamond recovery. The first results are expected in early August. If significant levels of diamonds are recovered in any sample Flinders would probably move to immediate treatment of a larger, say 1000 tonne, bulk sample. The Flinders Board visited the bulk sample treatment site on 24 July (Figure 5).

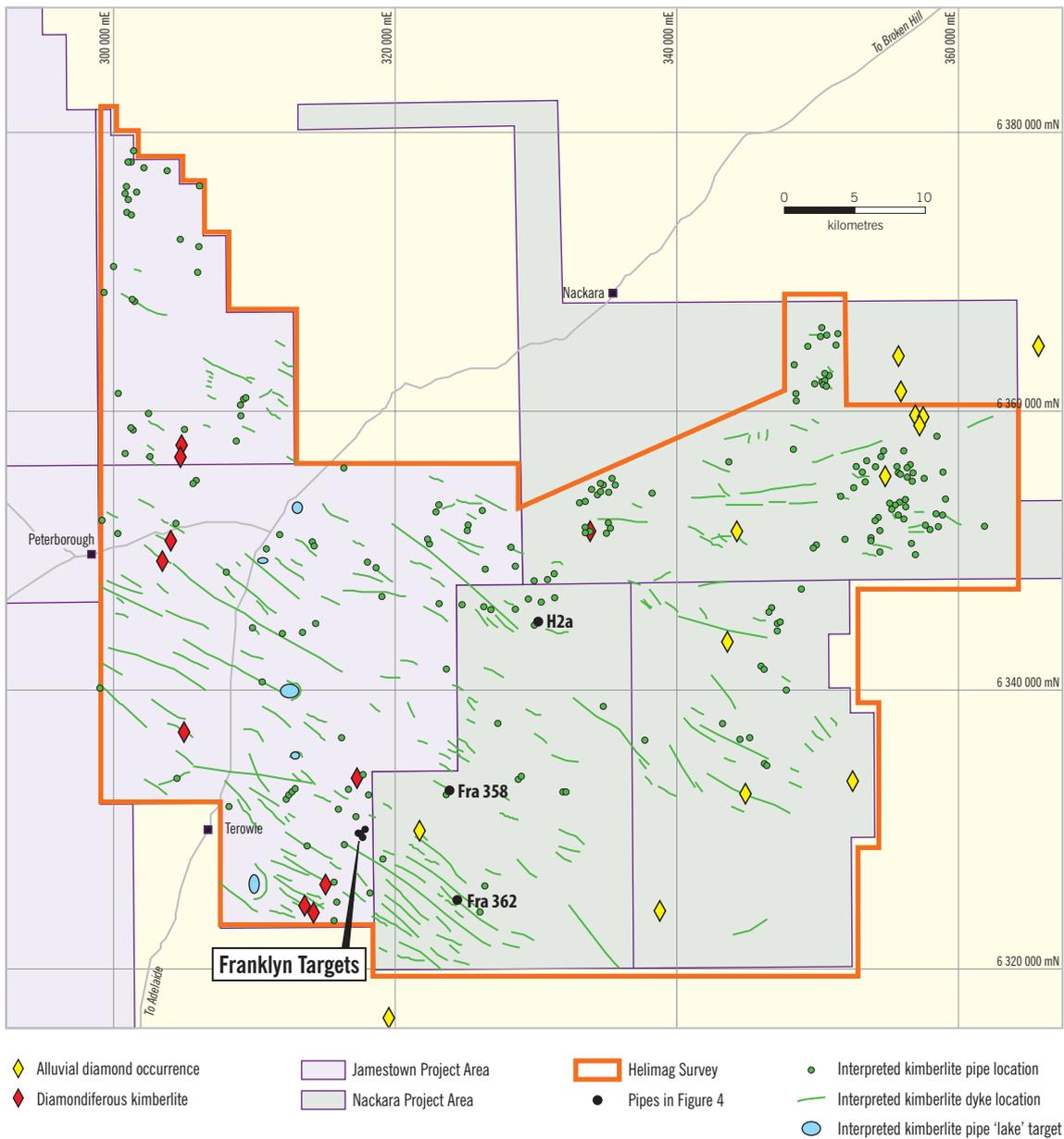


Figure 6 Preliminary interpretation of kimberlite targets from the Peterborough and Nackara helimag surveys.

Helimag Interpretation

Interpretation of the Peterborough and Nackara helimag survey's continued during the quarter. A map showing the large number of new targets identified is shown as Figure 6. At the end of July the interpretation is about 50% complete and 59 high priority pipe targets and 75 high priority dyke targets have been identified. This is from a total of hundreds of pipe and dyke targets of varying priorities identified to date.

The large number of new kimberlite pipe targets identified from the helimag surveys will enable the whole Flinders Ranges exploration program to move mainly from assessment of dyke targets to evaluation of pipe targets. An implication is that as pipe targets are more likely to be mineable by open cut methods than dykes, a lower average grade and diamond value can produce a commercial result and this increases the overall chances of achieving a mine development.

Franklyn Target Exploration

The Franklyn Target area was located from the recent Peterborough helimag survey and has been the subject of an intense and rapid exploration program during the quarter. Initially a 48 hectare airborne magnetic anomaly was identified. Follow up trenching located two kimberlite pipes at Franklyn 1 and 2 but could not penetrate the Tertiary sediment cover over Franklyn 3 and 4. A ground magnetic survey was then carried out (Figure 7a). This was

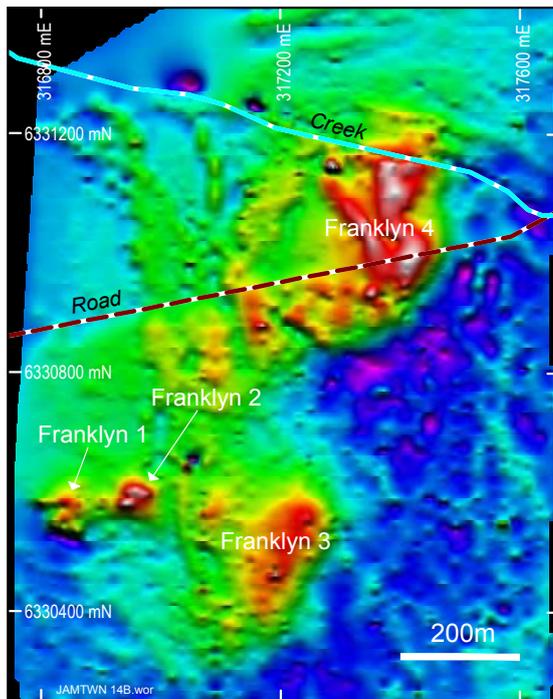


Figure 7a Ground magnetic image, Franklyn Target.

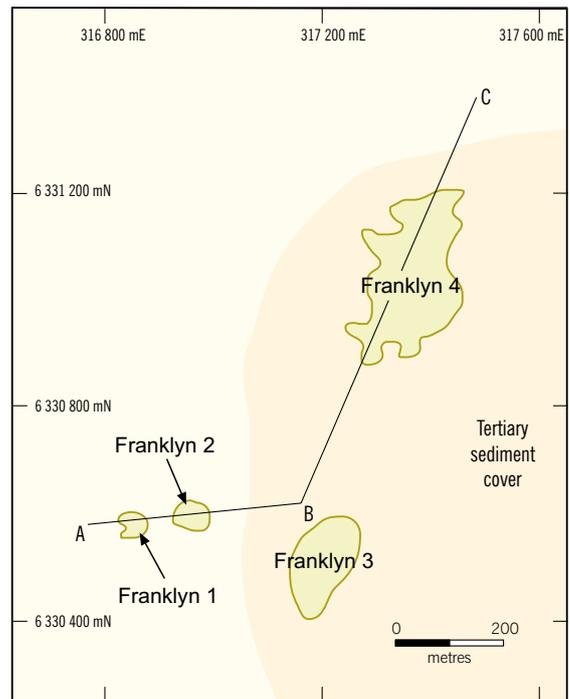


Figure 7b Geological plan, Franklyn Target.

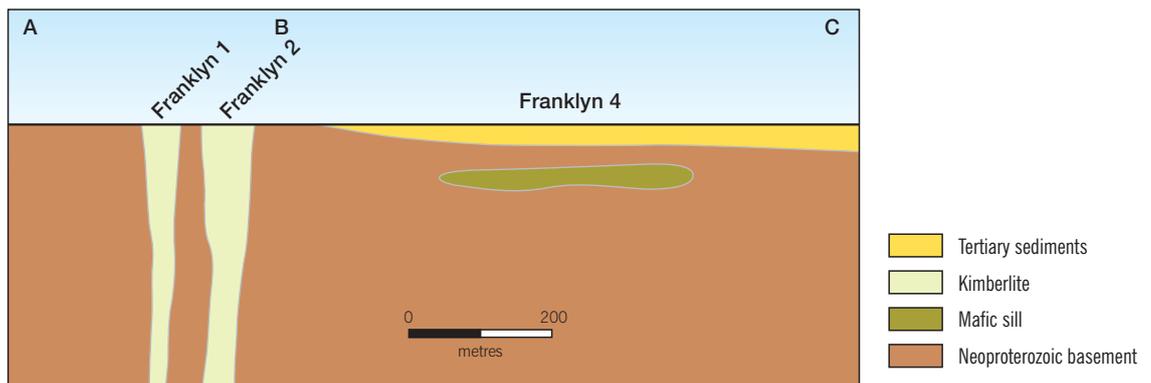


Figure 7c Section interpretation across the Franklyn target.

followed up by a drilling program to test the Franklyn 3 and 4 targets under the Tertiary sedimentary cover (Figure 8). Although it was initially thought that the magnetic source of the Franklyn 3 and 4 targets was kimberlite (ASX Announcement 17 July 2006), further drilling and analytical work has led to the conclusion that the magnetic source is a dark grey mafic to ultramafic rock. It occurs as sub-horizontal intrusions or sills as shown on Figures 7b and 7c. Although these sills explain

the airborne and ground magnetic anomalies, they are not thought likely to be diamond host rocks. Despite this, a few samples will be run for microdiamonds for analytical confirmation.

New Kimberlite Diamond Assessment

Twenty-five samples of new kimberlites discovered so far in 2006 have been sent to Canada for Microdiamond determinations. These include 13 pipe samples, 9 dyke samples and 3 kimberlitic sills. Results are expected by the end

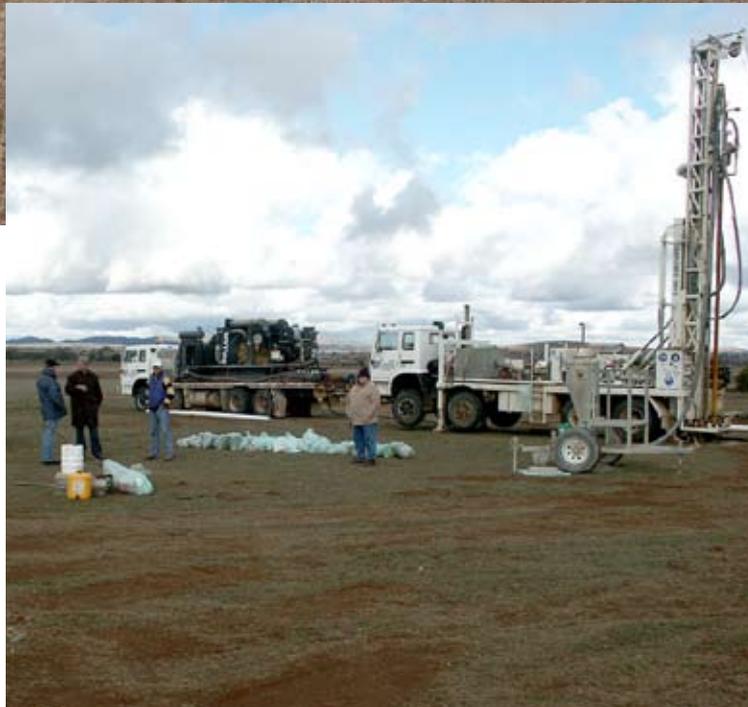
of August. Flinders has decided to send its microdiamond analytical work to Canada on a trial basis due to the larger throughput availability from Canadian laboratories and anticipated quicker turnaround times. Diamond indicator mineral concentrates will also be made for mineral analysis work.



Figure 8 Drilling at the Franklyn target 24 July 2006.

Forward Program

With the bulk sampling program nearing completion, Flinders' attention has turned towards re-establishing the ongoing program of new kimberlite identification by ground magnetics followed by trenching or drilling to obtain samples for microdiamond determination. A batch of 30 helimag targets are currently being covered by ground magnetic surveys and the next excavator program has been planned to commence by mid August. It is anticipated that at least 50 new microdiamond results will be available within two or three months and that this will lead to another program of bulk sampling.



G2 Project

FDL 100% of diamond rights

The G2 project is located on the Gawler Craton, south of Lake Eyre, and is designed to locate the source-rock of alluvial diamonds previously found in the Peake and Denison Ranges. A drilling program designed to follow up previous positive results and provide a focus for follow up exploration is expected to commence in the first week of August.

Adelaide Hills Project

FDL 100% of diamond rights except EL3215 (Lobethal), earning 75% of diamond rights

No diamond exploration was undertaken. A review of exploration to date will be undertaken to identify new methods of attempting to locate the source of the Echunga

diamonds and the numerous unexplained diamond indicator mineral anomalies in the Barossa Ranges.

NORTHERN TERRITORY

Strangways Project

FDL 100% of diamond rights

No diamond exploration activities were carried out.

WESTERN AUSTRALIA

Hamersley Project

Prenti JV, FDL earning 100%, then De Beers can earn 70%

No new fieldwork was undertaken. Drill samples from the Mulga Downs drilling program undertaken in August 2005 were examined for diamond indicator minerals. No anomalies were reported. This confirms the visual and chemical analyses previously carried out. The source of the Mulga Downs diamonds therefore remains undetected.

Twin Swamps Project

Prenti JV, FDL earning 100%

No exploration activities were carried out. It is anticipated that the swamps are now sufficiently dried out to allow drilling of the kimberlite pipe diamond targets at Twin Swamps later in 2006.

CORPORATE

Eromanga Uranium Limited's IPO

On July 25, Flinders Diamonds announced that its shareholders would be entitled to a priority offer in the IPO of Eromanga Uranium Limited. This is because Flinders Diamonds, as the registered holder of the G2 project tenements, has agreed to allow Maximus Resources Limited to farm out 50% of the non-diamond rights to Eromanga Uranium Resources Pty Ltd which is subject to a sale agreement with Eromanga Uranium Limited (ERO). Flinders Diamonds shareholders registered at the close of Business on August 9 will be entitled to the priority offer.

Finance

On 30 June 2006, the Company had available funds of \$2.94 million. Exploration expenditure by the company during the March quarter was \$494,000 and forecast expenditure for the September quarter of 2006 is \$600,000.

Dr Kevin JA Wills
Managing Director

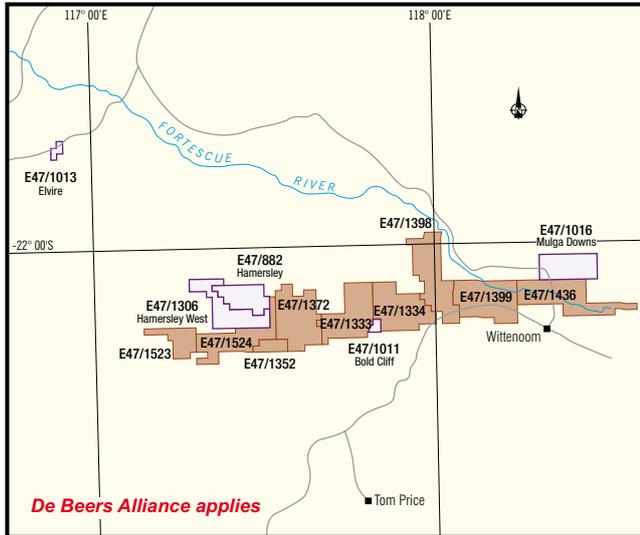
31 July 2006

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

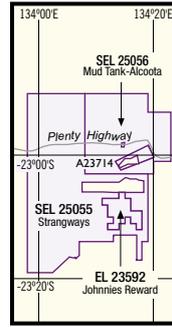
Further information relating to Flinders Diamonds Limited and its diversified exploration projects will be found on Flinders Diamonds website:

www.flindersdiamonds.com

Hamersley

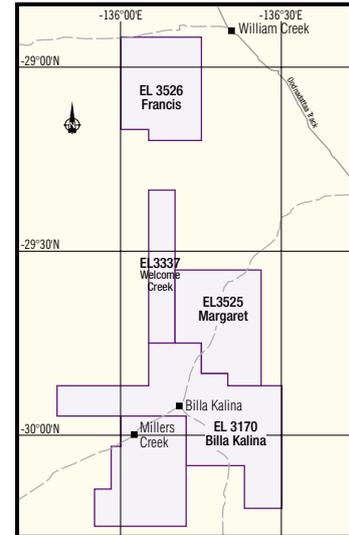


Strangways

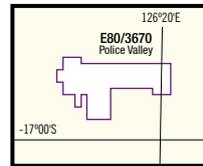


Note: All tenement maps shown at the same scale

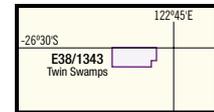
G2



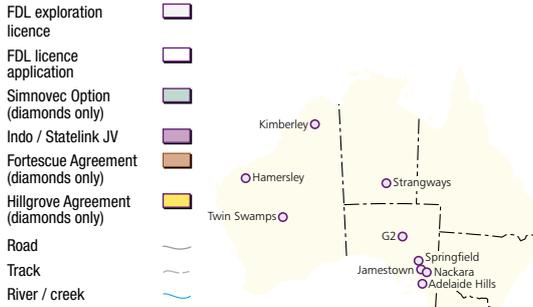
Kimberley



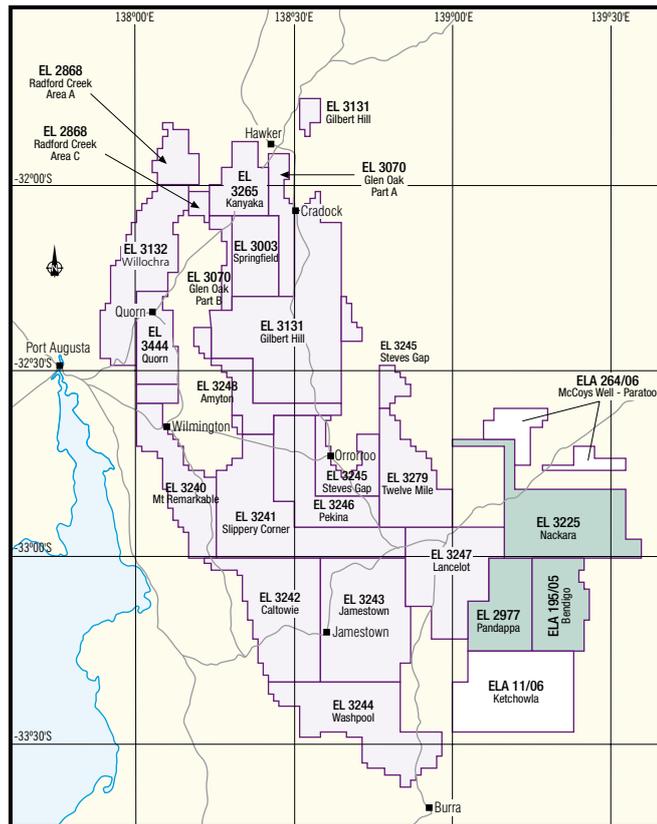
Twin Swamps



Legend Tenement locations
30 June 2006



Springfield/Jamestown/Nackara



AUSGEN 05

Adelaide Hills

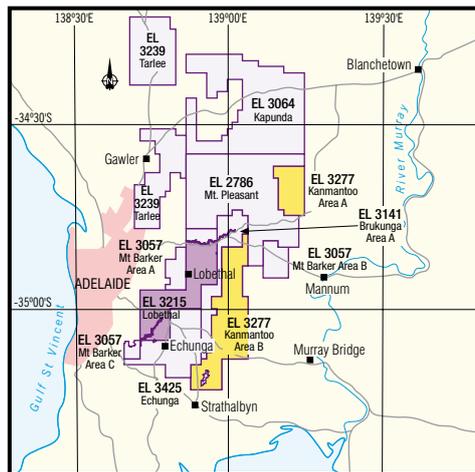


Figure 9 Tenement locations as at 30 June 2006

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Flinders Diamonds Limited

ABN

46 091 118 044

Quarter ended ("current quarter")

30 June 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(494)	(1,054)
(b) development		
(c) production		
(d) administration	(384)	(941)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	33	41
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)	(1)	1
Net Operating Cash Flows	(846)	(1,953)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		(50)
(b) equity investments		
(c) other fixed assets	(48)	(49)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities	(145)	(145)
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(193)	(244)
1.13 Total operating and investing cash flows (carried forward)	(1,039)	(2,197)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,039)	(2,197)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,667	4,859
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)	(189)	(244)
	Net financing cash flows	3,478	4,635
	Net increase (decrease) in cash held	2,439	2,438
1.20	Cash at beginning of quarter/year to date	499	500
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	2,938	2,938

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	106
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	600
4.2 Development	
Total	

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	538	499
5.2 Deposits at call	2,400	
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	2,938	499

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	485,549,708	485,549,708		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	243,117,067	243,117,067		
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	381,653,978	381,653,978	<i>Exercise price</i> \$0.10	<i>Expiry date</i> 29/9/2008
7.8 Issued during quarter	242,552,620	242,552,620	\$0.10	29/9/2008
7.9 Exercised during quarter	564,447	564,447	\$0.05	17/6/2006
7.10 Expired during quarter	74,160,219	74,160,219	\$0.05	17/6/2006
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance statement

+ See chapter 19 for defined terms.

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Richard W C Willson
(Company secretary)

Date: 28 July 2006

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

== == == == ==

+ See chapter 19 for defined terms.