



FLINDERS
DIAMONDS

The Manager
Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

ONE FOR ONE RIGHTS ISSUE AND PLACEMENT

The directors of Flinders Diamonds Limited (Flinders) advise that the Company will today lodge with the ASIC and ASX a prospectus for a non-renounceable rights issue to raise approximately \$3.027 million along with a placement via selected brokers to raise a further \$1.2 million.

The Prospectus shall be despatched to shareholders on 31 January 2006. A copy of the Prospectus will be available on the ASX website (www.asx.com.au) as well as the Company's website (www.flindersdiamonds.com).

The net proceeds from both the Rights Issue and the placement shall be used as working capital and to finance exploration and development of projects in the Company's existing portfolio.

Key terms of the issue are as follows:

- ◆ The Company is offering to shareholders registered at the close of business on 25 January 2006 1 new share for every share then held
- ◆ Each new share is offered at an issue price of 1.5 cents
- ◆ Each new share issued will also carry 1 option to acquire a fully paid share in the Company for 10 cents expiring on 29 September 2008
- ◆ The issue is not underwritten, however the directors reserve the right to place any shortfall within three months of the close of the Rights Issue
- ◆ In addition the company plans to place 80 million shares with clients of selected brokers, also at a price of 1.5 cents with an attaching option, to raise an additional \$1.2 million.

Notice in accordance with Appendix 7A, paragraph 3 of the ASX Listing Rules, will not be sent to option holders.

Summary of Key Dates

Announcement of Rights Issue	17 January 2006
Securities quoted on an ex-basis (shares acquired after this shall not carry the right to shares in the Rights Issue)	19 January 2006
Record Date to determine entitlement to New Shares (Shareholders appearing on the register at this date shall be entitled to take up rights in the issue)	25 January 2006
Despatch of Prospectus and Acceptance forms	31 January 2006
Rights Issue and Placement offer close	24 February 2006
General meeting of shareholders to approve Placement Offer	3 March 2006

These dates are indicative only and, subject to the ASX Listing Rules, may be varied by the Directors without notice.

Yours sincerely

Dr Kevin Wills
Managing Director

Flinders Diamonds Ltd
ABN 46 091 118 004

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Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 1/7/96. Origin: Appendix 5. Amended 1/7/98, 1/9/99, 1/7/2000, 30/9/2001, 11/3/2002.

Name of entity

FLINDERS DIAMONDS LIMITED

ABN

46 091 118 044

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

- | | | |
|---|--|--|
| 1 | +Class of +securities issued or to be issued | 1. ORDINARY FULLY PAID SHARES
2. OPTIONS TO ACQUIRE ORDINARY SHARES @ 10 CENTS BY 29 SEPTEMBER 2008 |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued | 1. MAXIMUM OF 280,585,261
2. MAXIMUM OF 280,585,261 |
| 3 | Principal terms of the +securities (eg, if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion) | 1. ORDINARY FULLY PAID SHARES
2. OPTIONS TO ACQUIRE ORDINARY SHARES @ 10 CENTS BY 29 SEPTEMBER 2008 |

+ See chapter 19 for defined terms.

4	<p>Do the ⁺securities rank equally in all respects from the date of allotment with an existing ⁺class of quoted ⁺securities?</p> <p>If the additional securities do not rank equally, please state:</p> <ul style="list-style-type: none"> • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment 	<ul style="list-style-type: none"> • FULLY PAID ORDINARY SHARES ISSUED WILL RANK PARI PASSU WITH EXISTING SHARES 								
5	Issue price or consideration	\$0.015/SHARE								
6	Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)	RAISE CAPITAL TO CONTINUE ACTIVE EXPLORATION								
7	Dates of entering ⁺ securities into uncertificated holdings or despatch of certificates	<ol style="list-style-type: none"> 1. RIGHTS ISSUE ALLOTMENT – 27.2.2006 2. PLACEMENT ALLOTMENT – 6.3.2006 								
8	Number and ⁺ class of all ⁺ securities quoted on ASX (including the securities in clause 2 if applicable)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Number</th> <th style="width: 50%;">⁺Class</th> </tr> </thead> <tbody> <tr> <td>♦ TO BE ADVISED</td> <td>♦ Fully paid ordinary shares</td> </tr> <tr> <td>♦ TO BE ADVISED</td> <td>♦ 10 Cent Options expiring 29.9.2008</td> </tr> <tr> <td>♦ 74,724,666</td> <td>♦ 5 Cent Options expiring 17.6.2006</td> </tr> </tbody> </table>	Number	⁺ Class	♦ TO BE ADVISED	♦ Fully paid ordinary shares	♦ TO BE ADVISED	♦ 10 Cent Options expiring 29.9.2008	♦ 74,724,666	♦ 5 Cent Options expiring 17.6.2006
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♦ TO BE ADVISED	♦ 10 Cent Options expiring 29.9.2008									
♦ 74,724,666	♦ 5 Cent Options expiring 17.6.2006									
9	Number and ⁺ class of all ⁺ securities not quoted on ASX (including the securities in clause 2 if applicable)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Number</th> <th style="width: 50%;">⁺Class</th> </tr> </thead> <tbody> <tr> <td>1,075,000</td> <td>Employee Options</td> </tr> </tbody> </table>	Number	⁺ Class	1,075,000	Employee Options				
Number	⁺ Class									
1,075,000	Employee Options									
10	Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)	NEW SHARES WILL PARTICIPATE IN ALL DIVIDENDS DECLARED AFTER THEIR ALLOTMENT AND RANK EQUALLY WITH EXISTING SHARES								

⁺ See chapter 19 for defined terms.

Part 2 - Bonus issue or pro rata issue

11	Is security holder approval required?	NO
12	Is the issue renounceable or non-renounceable?	NON-RENOUNCEABLE
13	Ratio in which the +securities will be offered	1:1
14	+Class of +securities to which the offer relates	FULLY PAID ORDINARY SHARES
15	+Record date to determine entitlements	25 JANUARY 2006
16	Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	N/A
17	Policy for deciding entitlements in relation to fractions	N/A
18	Names of countries in which the entity has +security holders who will not be sent new issue documents <small>Note: Security holders must be told how their entitlements are to be dealt with. Cross reference: rule 7.7.</small>	SECURITY HOLDERS IN COUNTRIES OTHER THAN AUSTRALIA AND NEW ZEALAND WILL NOT BE SENT ISSUE DOCUMENTS
19	Closing date for receipt of acceptances or renunciations	24 FEBRUARY 2006
20	Names of any underwriters	N/A
21	Amount of any underwriting fee or commission	N/A
22	Names of any brokers to the issue	N/A
23	Fee or commission payable to the broker to the issue	N/A
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of +security holders	N/A

+ See chapter 19 for defined terms.

25	If the issue is contingent on +security holders' approval, the date of the meeting	N/A
26	Date entitlement and acceptance form and prospectus or Product Disclosure Statement will be sent to persons entitled	31 JANUARY 2006
27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	N/A
28	Date rights trading will begin (if applicable)	N/A
29	Date rights trading will end (if applicable)	N/A
30	How do +security holders sell their entitlements <i>in full</i> through a broker?	N/A
31	How do +security holders sell <i>part</i> of their entitlements through a broker and accept for the balance?	N/A
32	How do +security holders dispose of their entitlements (except by sale through a broker)?	N/A
33	+Despatch date	6 th MARCH 2006

+ See chapter 19 for defined terms.

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

34 Type of securities
(tick one)

(a) Securities described in Part 1

(b) All other securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

(If the additional securities do not form a new class, go to 43)

Tick to indicate you are providing the information or documents

35 If the +securities are +equity securities, the names of the 20 largest holders of the additional +securities, and the number and percentage of additional +securities held by those holders

36 If the +securities are +equity securities, a distribution schedule of the additional +securities setting out the number of holders in the categories
1 - 1,000
1,001 - 5,000
5,001 - 10,000
10,001 - 100,000
100,001 and over

37 A copy of any trust deed for the additional +securities

(now go to 43)

+ See chapter 19 for defined terms.

Entities that have ticked box 34(b)

38 Number of securities for which
+quotation is sought

39 Class of +securities for which
quotation is sought

40 Do the +securities rank equally in all
respects from the date of allotment
with an existing +class of quoted
+securities?

If the additional securities do not
rank equally, please state:

- the date from which they do
- the extent to which they
participate for the next dividend,
(in the case of a trust,
distribution) or interest payment
- the extent to which they do not
rank equally, other than in
relation to the next dividend,
distribution or interest payment

41 Reason for request for quotation
now

Example: In the case of restricted securities, end of
restriction period

(if issued upon conversion of
another security, clearly identify that
other security)

	Number	+Class
42 Number and +class of all +securities quoted on ASX (including the securities in clause 38)		

(now go to 43)

+ See chapter 19 for defined terms.

All entities

Fees

43 Payment method (tick one)

To be invoiced by ASX

Electronic payment made

Note: Payment may be made electronically if Appendix 3B is given to ASX electronically at the same time.

Periodic payment as agreed with the home branch has been arranged

Note: Arrangements can be made for employee incentive schemes that involve frequent issues of securities.

Quotation agreement

1 ⁺Quotation of our additional ⁺securities is in ASX's absolute discretion. ASX may quote the ⁺securities on any conditions it decides.

2 We warrant the following to ASX.

- The issue of the ⁺securities to be quoted complies with the law and is not for an illegal purpose.
- There is no reason why those ⁺securities should not be granted ⁺quotation.
- An offer of the ⁺securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any ⁺securities to be quoted and that no-one has any right to return any ⁺securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the ⁺securities be quoted.
- We warrant that if confirmation is required under section 1017F of the Corporations Act in relation to the ⁺securities to be quoted, it has been provided at the time that we request that the ⁺securities be quoted.
- If we are a trust, we warrant that no person has the right to return the ⁺securities to be quoted under section 1019B of the Corporations Act at the time that we request that the ⁺securities be quoted.

⁺ See chapter 19 for defined terms.

- 3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

- 4 We give ASX the information and documents required by this form. If any information or document not available now, will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.



Sign here:
Company Secretary

Date: 17th JANUARY 2006

Print name: Michael Robert Billing

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+ See chapter 19 for defined terms.