



FLINDERS
DIAMONDS

FLINDERS DIAMONDS LIMITED

ACN 091 118 044

INTERIM FINANCIAL REPORT

For the half-year ended

31 December 2006

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DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

Your directors submit the interim financial report of the entity for the half-year ended 31 December 2006.

Directors

The names of directors who held office during or since the end of the half-year:

- | | |
|---|---|
| • Mr Robert Michael Kennedy (Chairman) | Director & Chairman since December 2001 |
| • Dr Kevin John Anson Wills | Director since January 2000 |
| • Mr Ewan John Vickery | Director since August 2001 |
| • Mr Gregory Morning May (Alternate for E J Vickery) | Alternate Director since April 2005 |
| • Mr Michael Robert Billing (Alternate for K J A Wills) | Alternate Director since June 2003 |

Review of Operations

Over the half year to the end of December 2006 Flinders Diamonds Limited (FDL) continued with its active exploration program in the Flinders Ranges of South Australia and in the north of Western Australia. In the Flinders Ranges, a total of 16 new kimberlites were discovered and 76 macrodiamonds recovered from bulk sampling.

In Western Australia, kimberlite targets were tested by drilling programs at the Twin Swamps and Hamersley Projects. At Twin Swamps, about 200 km east of Wiluna, drill testing of the swamp targets was unsuccessful in locating any kimberlites. At the Hamersley project in the Pilbara, one of several targets was drill tested, but no kimberlite was located. However, the considerable difficulty and expense of core drilling led to the postponement of drilling at the other targets until a more suitable drill rig becomes available, probably in mid 2007.

In the Flinders Ranges, active diamond exploration continued throughout the period. A phase of bulk sampling of kimberlite led to the recovery of 76 macrodiamonds, totalling about 1 carat, from about 300 tonnes of kimberlite from the Eurelia area. Although encouraging, these results are not at economic levels. Also in the Flinders Ranges about 50 helimag anomaly targets were evaluated by Ground Magnetics and after testing by trenching or drilling, 16 new kimberlites were discovered.

At the Monks Hill Prospect, located about 40 kilometres east of Terowie, a new kimberlite pipe was found with interesting levels of microdiamonds. An eight kg sample, processed in Canada, contained 43 microdiamonds. This is a potentially economic concentration of diamonds and further work, including bulk sampling will be undertaken.

Auditor's Independence Declaration

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

Signed in accordance with a resolution of the directors.



.....
Robert M Kennedy
Chairman

Signed at Adelaide this 13th day of March 2007

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF FLINDERS DIAMONDS LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Flinders Diamonds Limited for the half-year ended 31 December 2006, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Adelaide this 13 day of March 2007

FLINDERS DIAMONDS LIMITED
ACN 091 118 044

INTERIM INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	31 December 2006	31 December 2005
	\$	\$
Revenue	62,263	1,156,249
Marketing expenses	(90,217)	(49,790)
Occupancy expenses	(20,000)	(13,731)
Administrative expense	(26,697)	(319,321)
Finance costs	(435)	(762)
Exploration expenditure written off	(79,276)	(22,037)
	<hr/>	<hr/>
Profit / (loss) before income tax	(154,362)	750,608
Income tax expense	(4,646)	-
	<hr/>	<hr/>
Profit / (loss) for the period attributable to shareholders of the company	<u>(159,008)</u>	<u>750,608</u>
Basic earnings / (loss) per share (cents)	(0.03)	0.40
Diluted earnings / (loss) per share (cents)	(0.03)	0.40

**The income statement is to be read in conjunction with the condensed notes to the
interim financial report.**

FLINDERS DIAMONDS LIMITED
ACN 091 118 044

INTERIM BALANCE SHEET
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	31 December 2006 \$	30 June 2006 \$
CURRENT ASSETS		
Cash & cash equivalents	1,295,402	2,940,418
Trade & other receivables	116,609	245,780
Other current assets	27,000	24,000
TOTAL CURRENT ASSETS	<u>1,439,011</u>	<u>3,210,198</u>
NON-CURRENT ASSETS		
Property, plant & equipment	104,740	80,865
Exploration & evaluation expenditure	8,672,753	7,222,187
Financial assets	881,125	881,125
TOTAL NON-CURRENT ASSETS	<u>9,658,618</u>	<u>8,184,177</u>
TOTAL ASSETS	<u>11,097,629</u>	<u>11,394,375</u>
CURRENT LIABILITIES		
Trade & other payables	73,020	215,217
TOTAL CURRENT LIABILITIES	<u>73,020</u>	<u>215,217</u>
TOTAL LIABILITIES	<u>73,020</u>	<u>215,217</u>
NET ASSETS	<u>11,024,609</u>	<u>11,179,158</u>
EQUITY		
Issued capital	14,190,646	14,186,187
Reserves	(268,875)	(268,875)
Retained earnings	(2,897,162)	(2,738,154)
TOTAL EQUITY	<u>11,024,609</u>	<u>11,179,158</u>

The balance sheet is to be read in conjunction with the condensed notes to the interim financial report.

FLINDERS DIAMONDS LIMITED
ACN 091 118 044

INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Issued Capital \$	Financial Assets Reserve \$	Retained Earnings \$	Total \$
Balance at 1 July 2005	9,709,887	-	(3,119,935)	6,589,952
Profit for the period	-	-	750,608	750,608
Revaluation decrement	-	(356,578)	-	(356,578)
Shares issued during the period	421,296	-	-	421,296
Balance at 31 December 2005	<u>10,131,183</u>	<u>(356,578)</u>	<u>(2,369,327)</u>	<u>7,405,278</u>
Balance at 1 July 2006	14,186,187	(268,875)	(2,738,154)	11,179,158
Loss for the period	-	-	(159,008)	(159,008)
Shares issued during the period	15,300	-	-	15,300
Transaction costs relating to previous issue	(10,841)	-	-	(10,841)
Balance at 31 December 2006	<u>14,190,646</u>	<u>(268,875)</u>	<u>(2,897,162)</u>	<u>11,024,609</u>

The statement of changes in equity is to be read in conjunction with the condensed notes to the interim financial report.

FLINDERS DIAMONDS LIMITED
ACN 091 118 044

INTERIM CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	31 December 2006	31 December 2005
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	57,718	24,200
Payments to suppliers and employees	(125,546)	(397,909)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(67,828)	(373,709)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(32,599)	(1,927)
Payment for exploration activities	(1,526,102)	(424,416)
Payment of security bonds	(3,000)	-
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	(1,561,701)	(426,343)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	448,047
Capital Raising Costs	(15,487)	(26,750)
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	(15,487)	421,297
	<hr/>	<hr/>
Net decrease in cash held	(1,645,016)	(378,755)
Cash at beginning of period	2,940,418	500,303
	<hr/>	<hr/>
Cash at end of financial period	1,295,402	121,548
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The cash flow statement is to be read in conjunction with the condensed notes to the interim financial report.

**CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

NOTE 1 - BASIS OF PREPARATION

Reporting entity

Flinders Diamonds Limited (the "Company") is a company domiciled in Australia. The interim financial report of the Company is as at and for the six months ended 31 December 2006.

The annual financial report of the entity as at and for the year ended 30 June 2006 is available upon request from the Company's registered office at 62 Beulah Road, Norwood SA or at www.flindersdiamonds.com.

Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report as at and for the year ended 30 June 2006.

Significant accounting policies

The accounting policies applied by the entity in this interim financial report are the same as those applied by the entity in its financial report as at and for the year ended 30 June 2006.

NOTE 2 - ECONOMIC DEPENDENCY

As a junior explorer the Company has only sufficient funds on hand to meet its ongoing corporate and exploration commitments for the next six months. As a consequence the directors are considering the following activities:

- negotiations to farm out the Company's surplus exploration commitments;
- steps to identify sources of additional capital; and
- reduction of rate of expenditure.

The Company is economically dependent on the achievement of one or all of the above options.

At the date of this report the Company has not yet secured the farm out arrangements or additional capital.

NOTE 3 - PRIOR PERIOD ADJUSTMENTS

During the year ended 30 June 2006 the unrealised losses arising from changes in the fair value of available-for-sale assets were recognised through the income statement. As required by AASB139 - Financial Instruments: Recognition and Measurement, these changes should have been taken directly to equity. The following restatements to prior period information have therefore been made:

	31 December 2005			30 June 2006		
	Reported	Restated	Change	Reported	Restated	Change
BALANCE SHEET						
EQUITY						
Issued Capital	10,131,184	10,131,184	-	14,186,187	14,186,187	-
Reserves	-	(356,578)	(356,578)	-	(268,875)	(268,875)
Retained Earnings	(2,725,906)	(2,369,328)	356,578	(3,007,029)	(2,738,154)	268,875
TOTAL EQUITY	7,405,278	7,405,278	-	11,179,158	11,179,158	-

CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 3 - PRIOR PERIOD ADJUSTMENTS (cont.)

	31 December 2005			30 June 2006		
	Reported	Restated	Change	Reported	Restated	Change
INCOME STATEMENT						
Loss on write down of investment to fair value	(356,578)	-	356,578	(268,875)	-	268,875
Profit (Loss) before income tax	394,030	750,608	356,578	112,906	381,781	268,875
Income tax expense	-	-	-	-	-	-
Profit (Loss) for the period attributable to shareholders of the company	394,030	750,608	356,578	112,906	381,781	268,875
Basic earnings / (loss) per share (cents)	0.21	0.40	0.19	(0.04)	0.15	0.19
Diluted earnings / (loss) per share (cents)	0.21	0.40	0.19	(0.04)	0.15	0.19

DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

In the opinion of the directors of Flinders Diamonds Limited (the company):

1. The financial statements and notes, as set out on pages 4 to 9, are in accordance with the Corporations Act 2001 including:
 - (a) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) Giving a true and fair view of the company's financial position as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.



.....
Robert M Kennedy
Director

Signed at Adelaide this 13th day of March 2007

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF FLINDERS DIAMONDS LIMITED****Scope****Report on the financial report**

We have reviewed the accompanying interim financial report of Flinders Diamonds Limited, which comprises the interim balance sheet as at 31 December 2006, the income statement, statement of changes in equity, cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the Financial Report

The directors' of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the interim financial report is not presented fairly, in all material respects, in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. As the auditor of Flinders Diamonds Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Level 1
67 Greenhill Road
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide
T (08) 8372 6666
F (08) 8372 6677
E info@gtisa.com.au
W www.granthornton.com.au

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Flinders Diamonds Limited is not in accordance with the Corporations Act 2001, including:

- i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Adelaide this 13 day of March 2007