



Flinders Mines Limited

ABN 46 091 118 044

**Financial report
for the half-year ended 31 December
2011**

Flinders Mines Limited ABN 46 091 118 044

Financial report - 31 December 2011

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Flinders Mines Limited and its subsidiary. The financial statements are presented in the Australian currency.

Flinders Mines Limited is a company limited by shares, listed on the Australian Securities Exchange (ASX) under the code "FMS" and incorporated and domiciled in Australia. The registered office and principal place of business is:

Flinders Mines Limited
Level 1, 136 Frome Street
Adelaide SA 5000

The registered postal address is:

Flinders Mines Limited
PO Box 3065
Rundle Mall
Adelaide SA 5000

The financial statements were authorised for issue by the directors on 29 February 2012. The directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available on our website: www.flindersmines.com.

Directors report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Flinders Mines Limited (referred to hereafter as the Parent Entity or the Company) and the entity it controlled at the end of, and during, the half-year ended 31 December 2011.

Directors

The following persons were directors of the Parent Entity during the whole of the half-year and up to the date of this report:

Robert Michael Kennedy (Non-executive chairman)
Gary David Sutherland (Managing Director)
John David Cooper (Non-executive director)
Kevin John Malaxos (Non-executive director)
Ewan John Vickery (Non-executive director)
Gregory Mornington May (Alternate director for E J Vickery)
Nicholas John Smart (Alternate director for R M Kennedy)

Review of operations

In the first half of FY2012, Flinders Mines Limited (FMS) successfully completed a Strategic Options Review, resulting in a Scheme Implementation Agreement (SIA) being executed between the Company and Magnitogorsk Iron and Steel Works OJSC (MMK) to effect the acquisition by MMK of 100% of the issued shares in FMS, at A\$0.30 cash per share. A Scheme Booklet containing information about the Scheme has been distributed to all Flinders Shareholders. The Scheme Meeting, at which Flinders' shareholders will vote whether or not to accept the Scheme, will be held on 30 March 2012. Should Flinders' shareholders and the Federal Court approve the Scheme, Flinders will apply to be de-listed from the ASX and the Scheme Consideration will be paid to all Flinders' shareholders on 18 April 2012. Total transaction costs of the Scheme are estimated to be approximately \$15.3 million, of which approximately \$14.5 million is only payable in the event the Scheme is approved and becomes effective.

Work continued on the Definitive Feasibility Study (DFS) for the Company's Pilbara Iron Ore Project (PIOP), with the focus largely on approvals, mining, metallurgical and marketing studies.

The PIOP JORC resource has continued to grow and now stands at 917 million tonnes (Mt) at 55% Fe, a 23% increase over the previous year. This resource is expected to increase further through definition of shallow, thick and high grade mineralisation which has been identified by the Company outside existing resources. A total of 60,567 metres were drilled on the PIOP over the year.

On the Company's Canegrass project, preliminary electromagnetic (GEM) surveys were completed over 7 selected targets. Evaluation of the data is currently underway.

The Company remained in a strong cash position, with \$23.7m cash in hand at 31 December 2011 (30 June 2011: \$36.3m).

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is signed and dated in Adelaide on this 29th day of February 2012 and made in accordance with a resolution of the directors.



Robert M Kennedy
Director

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Flinders Mines Limited for the half-year ended 31 December 2011, 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 review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J.L. Humphrey
Partner

Adelaide, 29 February 2012

Flinders Mines Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2011

	Half-year	
	2011	2010
	\$	\$
Revenue from continuing operations	1,039,614	1,552,769
Loss on disposal of assets	(23,417)	(265)
Marketing expenses	(693,554)	(482,067)
Administrative expenses	(2,567,694)	(1,906,059)
Finance costs	(12,689)	(9,123)
Exploration expenditure written off	(123,963)	(233,285)
Loss before income tax	(2,381,703)	(1,078,030)
Income tax (expense)/benefit	(39,800)	2,122
Loss for the half-year	(2,421,503)	(1,075,908)
Other comprehensive income		
Changes in the fair value of available-for-sale financial assets (net of tax)	(90,047)	183,445
Other comprehensive income for the half-year (net of tax)	(90,047)	183,445
Total comprehensive income for the half-year	(2,511,550)	(892,463)
Loss is attributable to:		
Equity holders of Flinders Mines Limited	(2,421,503)	(1,075,908)
	<u>(2,421,503)</u>	<u>(1,075,908)</u>
Total comprehensive income for the half-year is attributable to:		
Equity holders of Flinders Mines Limited	(2,511,550)	(892,463)
	<u>(2,511,550)</u>	<u>(892,463)</u>
	Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the Parent Entity:		
Basic earnings per share	(0.133)	(0.049)
Diluted earnings per share	(0.133)	(0.049)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Flinders Mines Limited
Consolidated statement of financial position
As at 31 December 2011

	Notes	31 December 2011 \$	30 June 2011 \$
ASSETS			
Current assets			
Cash and cash equivalents		23,664,675	36,321,300
Trade and other receivables		616,029	1,748,263
Other current assets		<u>161,151</u>	<u>45,545</u>
Total current assets		<u>24,441,855</u>	<u>38,115,108</u>
Non-current assets			
Available-for-sale financial assets		111,028	239,667
Plant and equipment		1,544,171	1,670,970
Exploration and evaluation		54,121,424	43,278,950
Other non-current assets		<u>27,000</u>	<u>27,000</u>
Total non-current assets		<u>55,803,623</u>	<u>45,216,587</u>
Total assets		<u>80,245,478</u>	<u>83,331,695</u>
LIABILITIES			
Current liabilities			
Trade and other payables		684,800	1,720,061
Provisions		<u>249,377</u>	<u>203,165</u>
Total current liabilities		<u>934,177</u>	<u>1,923,226</u>
Non-current liabilities			
Provisions		<u>95,195</u>	<u>96,516</u>
Total non-current liabilities		<u>95,195</u>	<u>96,516</u>
Total liabilities		<u>1,029,372</u>	<u>2,019,742</u>
Net assets		<u>79,216,106</u>	<u>81,311,953</u>
EQUITY			
Contributed equity	4	105,277,581	105,266,776
Reserves	5(a)	953,639	638,788
Retained losses	5(b)	<u>(27,015,114)</u>	<u>(24,593,611)</u>
Total equity		<u>79,216,106</u>	<u>81,311,953</u>

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

Flinders Mines Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2011

Consolidated	Notes	Contributed equity \$	Reserves \$	Retained losses \$	Total equity \$
Balance at 1 July 2010		<u>105,227,282</u>	<u>139,139</u>	<u>(16,629,355)</u>	<u>88,737,066</u>
Total comprehensive income for the half-year:					
Loss for the half-year		-	-	(1,075,908)	(1,075,908)
Revaluation of financial assets (net of tax)	5	-	183,445	-	183,445
Total comprehensive income for the half-year		<u>-</u>	<u>183,445</u>	<u>(1,075,908)</u>	<u>(892,463)</u>
Transactions with owners in their capacity as owners:					
Contributions of equity	4	15,000	-	-	15,000
Transaction costs (net of tax)	4	(3,367)	-	-	(3,367)
		<u>11,633</u>	<u>-</u>	<u>-</u>	<u>11,633</u>
Balance at 31 December 2010		<u>105,238,915</u>	<u>322,584</u>	<u>(17,705,263)</u>	<u>87,856,236</u>
Consolidated	Notes	Contributed equity \$	Reserves \$	Retained losses \$	Total equity \$
Balance at 1 July 2011		<u>105,266,776</u>	<u>638,788</u>	<u>(24,593,611)</u>	<u>81,311,953</u>
Total comprehensive income for the half-year:					
Loss for the half-year		-	-	(2,421,503)	(2,421,503)
Revaluation of financial assets (net of tax)	5	-	(90,047)	-	(90,047)
Total comprehensive income for the half-year		<u>-</u>	<u>(90,047)</u>	<u>(2,421,503)</u>	<u>(2,511,550)</u>
Transactions with owners in their capacity as owners:					
Contributions of equity	4	10,805	-	-	10,805
Rights expensed during the period	5	-	412,235	-	412,235
Rights expired during the period	5	-	(7,337)	-	(7,337)
		<u>10,805</u>	<u>404,898</u>	<u>-</u>	<u>415,703</u>
Balance at 31 December 2011		<u>105,277,581</u>	<u>953,639</u>	<u>(27,015,114)</u>	<u>79,216,106</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Flinders Mines Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2011

	Half-year	
	2011	2010
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees (inclusive of goods and services tax)	(3,059,673)	(3,017,247)
Interest received	1,331,716	2,273,178
Other revenue	<u>678,712</u>	<u>106,616</u>
Net cash (outflow) from operating activities	<u>(1,049,245)</u>	<u>(637,453)</u>
 Cash flows from investing activities		
Payments for plant and equipment	(96,720)	(67,242)
Loans to related parties	-	(150,000)
Proceeds from sale of plant and equipment	15,582	-
Payments for exploration activities	<u>(11,537,047)</u>	<u>(8,806,453)</u>
Net cash (outflow) from investing activities	<u>(11,618,185)</u>	<u>(9,023,695)</u>
 Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	10,805	15,000
Share issue transaction costs	<u>-</u>	<u>(3,367)</u>
Net cash inflow from financing activities	<u>10,805</u>	<u>11,633</u>
 Net (decrease) in cash and cash equivalents	(12,656,625)	(9,649,515)
Cash and cash equivalents at the beginning of the half-year	<u>36,321,300</u>	<u>54,807,269</u>
Cash and cash equivalents at the end of the half-year	<u>23,664,675</u>	<u>45,157,754</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half-year report

This consolidated financial report for the half-year reporting period ended 31 December 2011 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The half-year report is for the consolidated entity consisting of Flinders Mines Limited and its subsidiary.

This consolidated half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by the Company during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The annual financial report of the Group for the year ended 30 June 2011 is available upon request from the Company's registered office at Level 1, 136 Frome Street, Adelaide SA 5000 or the Company's website: www.flindersmines.com.

The accounting policies adopted are consistent with those of the previous financial year and corresponding half-year reporting period.

The relevant amendments and their effects on the current period or prior periods are described below:

Amendments to AASB 134 Interim Financial Reporting

The amendments clarified certain disclosures relating to events and transactions that are significant to an understanding of changes in the Group's circumstances since the last annual financial statements. The Group's interim financial statements as of 31 December 2011 reflect these amended disclosure requirements, where applicable.

2 Segment information

(a) Description of segments

Identification of reportable segments

Management has determined the operating segments based on the reports reviewed and used by the Board of Directors (the chief operating decision maker) that are used to make strategic decisions. The Group is managed primarily on the basis of geographical area of interest, since the diversification of Group operations inherently has notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- external regulatory requirements
- geographical and geological styles

Operations

The Group has exploration operations in diamonds, phosphate and two styles of iron mineralisation. The costs associated with these operations are reported on in this segment.

Accounting policies developed

Unless stated otherwise, all amounts reported to the Board of Directors as chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

2 Segment information (continued)

(b) Primary reporting format - business segments

Half-year 2011	Pilbara Iron Ore \$	Canegrass Magnetite \$	Diamonds* \$	Other Minerals* \$	Total \$
Segment revenue for half-year 2011	-	-	-	-	-
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for half-year 2011	-	-	-	(123,963)	(123,963)
Capital expenditure written off / impaired for half-year 2011	-	-	-	(123,963)	(123,963)
Segment assets at 31 December 2011	<u>47,748,193</u>	<u>3,735,390</u>	<u>-</u>	<u>2,637,841</u>	<u>54,121,424</u>
Segment asset movements for the half-year ended 31 December 2011:					
Capital expenditure	10,567,609	240,418	-	158,410	10,966,437
Capital expenditure written off / impaired	-	-	-	(123,963)	(123,963)
Total movement for the half-year	<u>10,567,609</u>	<u>240,418</u>	<u>-</u>	<u>34,447</u>	<u>10,842,474</u>
Segment assets					54,121,424
Unallocated assets					<u>26,124,054</u>
Total assets					<u>80,245,478</u>
Segment liabilities	381,834	-	-	-	381,834
Unallocated liabilities					<u>647,538</u>
Total liabilities					<u>1,029,372</u>
Half-year 2010	Pilbara Iron Ore \$	Canegrass Magnetite \$	Diamonds* \$	Other Minerals* \$	Total \$
Segment revenue for half-year 2010	-	-	-	-	-
Adjusted EBITDA for half-year 2010	-	-	-	(233,285)	(233,285)
Impairment for half-year 2010	-	-	-	(233,285)	(233,285)
Segment assets at 30 June 2011	<u>37,180,584</u>	<u>3,494,972</u>	<u>-</u>	<u>2,603,394</u>	<u>43,278,950</u>
Segment asset movements for the year ended 30 June 2011:					
Capital expenditure	14,483,159	1,563,244	670,094	477,098	17,193,595
Capital expenditure written off / impaired	-	-	(4,856,938)	(1,160,390)	(6,017,328)
Inter-segment transfer	-	-	(2,603,394)	2,603,394	-
Total movement for the year	<u>14,483,159</u>	<u>1,563,244</u>	<u>(6,790,238)</u>	<u>1,920,102</u>	<u>11,176,267</u>
Segment assets					43,278,950
Unallocated assets					<u>40,052,745</u>
Total assets					<u>83,331,695</u>
Segment liabilities	1,028,882	32,658	-	-	1,061,540
Unallocated liabilities					<u>958,202</u>
Total liabilities					<u>2,019,742</u>

* During the 2011 financial year management amended the operating segment categories based on changes made to the reports reviewed and used by the Board of Directors (the chief operating decision maker). These changes saw 'Diamonds and Phosphate' become 'Diamonds' and 'Other' become 'Other Minerals'. The assets within 'Diamonds' were transferred to 'Other Minerals' during the 2011 financial year, as shown above and in Note 3 "Segment Information" in the Group's annual financial report for the year ended 30 June 2011.

2 Segment information (continued)

(i) *Adjusted EBITDA*

A reconciliation of adjusted EBITDA to operating profit/(loss) before income tax is provided as follows:

	2011	Half-year 2010
	\$	\$
Allocated:		
Adjusted EBITDA	(123,963)	(233,285)
Unallocated:		
Interest revenue	1,039,614	1,552,769
Loss on disposal of assets	(23,417)	(265)
Marketing expenses	(693,554)	(482,067)
Administrative expenses	(2,567,694)	(1,906,059)
Finance costs	(12,689)	(9,123)
Profit/(loss) before income tax	<u>(2,381,703)</u>	<u>(1,078,030)</u>

3 Contingencies

Contingent liabilities

Total transaction costs of the Scheme of Arrangement are estimated to be approximately \$15.3 million, of which approximately \$14.5 million is only payable in the event that Flinders' shareholders and the Federal Court approve the Scheme and it becomes effective.

4 Contributed equity

	31 December 2011 Shares	30 June 2011 Shares	31 December 2011 \$	30 June 2011 \$
(a) Share capital				
Ordinary shares				
Fully paid	1,821,300,404	1,820,839,571	105,277,581	105,266,776

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
1 July 2010	Opening balance	1,819,849,571		105,227,282
19 July 2010	Exercise of employee options Proceeds received	300,000	\$0.017	5,100
22 December 2010	Exercise of employee options Proceeds received	180,000	\$0.055	9,900
25 January 2011	Exercise of employee options Proceeds received	25,000	\$0.045	1,125
25 January 2011	Exercise of employee options Proceeds received	30,000	\$0.084	2,520
25 March 2011	Exercise of employee options Proceeds received	250,000	\$0.045	11,250
3 June 2011	Exercise of employee options Proceeds received	135,000	\$0.045	6,075
14 June 2011	Exercise of employee options Proceeds received	70,000	\$0.084	5,880
	Less: Transaction costs arising on share issues			(3,367)
	Deferred tax credit recognised directly in equity			1,011
30 June 2011	Balance	1,820,839,571		105,266,776
16 September 2011	Exercise of employee options Proceeds received	200,000	\$0.017	3,400
7 October 2011	Exercise of employee options Proceeds received	200,000	\$0.017	3,400
7 October 2011	Exercise of employee options Proceeds received	32,500	\$0.084	2,730
7 October 2011	Exercise of employee options Proceeds received	28,333	\$0.045	1,275
31 December 2011	Balance	1,821,300,404		105,277,581

5 Reserves and retained earnings

	31 December 2011 \$	30 June 2011 \$
(a) Reserves		
Available-for-sale investments revaluation reserve	(240,956)	(150,909)
Share-based payments	<u>1,194,595</u>	<u>789,697</u>
	<u>953,639</u>	<u>638,788</u>
Movements:		
<i>Available-for-sale investments revaluation reserve</i>		
Opening balance	(150,909)	(126,895)
Revaluation of financial assets (net of tax)	<u>(90,047)</u>	<u>(24,014)</u>
Closing balance	<u>(240,956)</u>	<u>(150,909)</u>
<i>Share-based payments</i>		
Opening balance	789,697	266,034
Options issued during the period	-	53,979
Rights expensed during the period	412,235	469,684
Rights expired during the period	<u>(7,337)</u>	<u>-</u>
Closing balance	<u>1,194,595</u>	<u>789,697</u>
(b) Retained losses		
Movements in retained losses were as follows:		
Opening balance	(24,593,611)	(16,629,355)
Net loss for the period	<u>(2,421,503)</u>	<u>(7,964,256)</u>
Closing balance	<u>(27,015,114)</u>	<u>(24,593,611)</u>

6 Events occurring after the reporting period

There has not arisen in the interval between 31 December 2011 and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future years.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Robert M Kennedy
Director

Adelaide
29th February 2012

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF FLINDERS MINES LIMITED

We have reviewed the accompanying half-year financial report of Flinders Mines Limited (“Company”), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors’ declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year’s end or from time to time during the half-year.

Directors’ responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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.

Auditor’s responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity’s financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Flinders Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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 complied with the independence requirements of the Corporations Act 2001.

Conclusion

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

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J L Humphrey
Partner

Adelaide, 29 February 2012