

# FLINDERS MINES LIMITED

ABN 46 091 118 044

## Financial Report

For the year ended 30 June 2009

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# Directors' Report

Your Directors present their report on the Company for the financial year ended 30 June 2009.

## Directors

The names of the Directors in office at any time during or since the end of the year are:

Robert Michael Kennedy

Kevin John Anson Wills

Ewan John Vickery

Andrew Joseph Andrejewskis  
(Alternate for R M Kennedy) since 12 March 2009

Nicholas John Corlis  
(Alternate for K J A Wills) since 12 March 2009

Kevin James Lines  
(Alternate for K J A Wills) from 7 October 2008, resigned  
12 March 2009

Gregory Mornington May  
(Alternate for E J Vickery)

Richard Walter Cumming Willson  
(Alternate for K J A Wills) resigned 7 October 2008

The Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## Information on Directors

### Robert Michael Kennedy

*Non-Executive Chairman – ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, Life Member AIM, FAICD*

A Chartered Accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. Mr Kennedy has been a Director since 14 December 2001. Mr Kennedy is also a director of ASX listed companies Beach Petroleum Limited (director since 1991, chairman since 1995), Eromanga Uranium Limited (since 2006), Marmota Energy Limited (since 2007), Maximus Resources Limited (since 2004), Monax Mining Limited (since 2004) and Ramelius Resources Limited (since 2004). His special responsibilities include chairmanship of the Corporate Development Committee and membership of the Audit Committee.

Mr Kennedy brings to the board his expertise in finance and management consultancy and extensive experience as chairman and non-executive director of a range of listed public companies. Mr Kennedy leads the development of strategies for the development and future growth of the Company.

### Kevin John Anson Wills

*Managing Director – ARSM, PhD, FAusIMM*

A director since incorporation 11 January 2000, Dr Wills is a geologist with 34 years experience in multi commodity mineral exploration including uranium exploration, feasibility studies and mine operations in Australasia. Dr Wills spent seven years with CRA Exploration Pty Ltd, the highlight of which was involvement with the location and evaluation of the Argyle Diamond Deposit. Later, with Penarroya Australia Pty Ltd, his work led to an expansion of reserves at Thalanga and the discovery of the Waterloo base metals deposit.

In the late 1980s, Dr Wills was exploration manager with Metana Minerals NL. He built up a successful exploration team which extended known gold ore bodies and made new discoveries. In the early 1990s Dr Wills was regional exploration manager with Dominion Mining Limited, based in Adelaide. His work on the Gawler Craton led to the development of a calcrete sampling technique which, late on, was instrumental in the Challenger gold discovery.

Dr Wills is currently a non-executive director of Maximus Resources Limited (since 2004) and Eromanga Uranium Limited (since 2006). He is a past chairman of the Adelaide Branch of the AusIMM and of the Exploration Committee at the South Australian Chamber of Mines and Energy.

**Ewan John Vickery**

*Non-Executive Director – L.LB*

A director since 16 June 2001. Mr Vickery is a corporate and business lawyer with over 30 years experience in private practice in Adelaide. He has acted as an advisor to companies on a variety of corporate and business issues including capital and corporate restructuring, native title and land access issues, and as lead native title advisor and negotiator for numerous mining and petroleum companies.

Mr Vickery is a non-executive director of Eromanga Uranium Limited (since 2006) and Maximus Resources Limited (since 2004). He is a member of the Exploration Committee of the South Australian Chamber of Mines and Energy Inc, the International Bar Association Energy and Resources Law Section, the Australian Institute of Company Directors and is a past national president of Australian Mining and Petroleum Law Association (AMPLA Limited).

Mr Vickery is the chairman of the Audit Committee.

**Andrew Joseph Andrejewskis**

*Alternate Director for R M Kennedy (Non-Executive) – BSc, Dip B Admin, FAIM, FAUSIMM (CP Man)*

A director since 12 March 2009. Mr Andrejewskis has held CEO and board positions in resources companies covering projects in Australia and overseas. He is a past Director-General/CEO of Mines & Energy SA for the South Australian Government and Director, Petroleum Development for the Northern Territory Government. Mr Andrejewskis brings a strong range of experience in areas of management, government, technical, commercial and administration.

**Nicholas John Corlis**

*Alternate Director for K J A Wills – BSc (Hons), MSc, MAIG, MAAG*

A director since 12 March 2009. Mr Corlis has over 14 years experience as a geochemist and geologist in multi commodity mineral exploration including gold, base metals and coal, and has been involved in several discoveries. He has extensive project management experience working as both a principal consultant for Golder Kingett Mitchell in New Zealand and exploration roles for WMC Resources and the Gutnick group of companies.

In his previous role as exploration manager for Perilya Ltd, Mr Corlis opened the Adelaide office in 2007, built up exploration teams for both Queensland and South Australia, extended the Mt Oxide copper resource by 80% and led the development of the Reliance non-sulphide zinc deposit into the feasibility stage.

**Gregory Mornington May**

*Alternate Director for E J Vickery (Non-Executive) – L.LB*

A director since April 2005. Mr May has been a corporate lawyer for over 20 years. He is the Chief operating partner of the Adelaide and Darwin partnership of Minter Ellison, and practices predominantly in the areas of corporate law, revenue law, trusts and superannuation. In particular, Mr May has acted for many years for both vendors and purchasers in the acquisition and disposal of businesses and companies. He advises on all aspects of those transactions, including taxation (and structuring issues), stamp duty and superannuation.

**Company Secretary**

The following persons held the position of Company Secretary during or since the end of the year:

**Richard Walter Cumming Willson,  
resigned 11 November 2008**

*BAC, CPA, GAICD*

Mr Willson has more than 15 years experience. He has worked in public practice and in various financial management and company secretarial roles within Provimi Australia Group, BHP Billiton and the Jumbuck Pastoral Group. He was Chief Financial Officer and Company Secretary of the Company until resigning on 11 November 2008.

**David Wayne Godfrey,  
since 11 November 2008**

*BCom (Fin), GradDipAcc, ASA, SAFin, CFTP (Snr), MAICD*

Mr Godfrey has more than 24 years experience in the resources and finance industries and is a member of Australian Society of CPAs, Financial Services Institute, Chartered Secretaries Australia and Australian Institute of Company Directors. He has previously held senior finance roles in major corporations and for the Treasury of New Zealand and has served as secretary of numerous publicly listed and subsidiary companies for the Normandy Mining Limited Group, Newmont Australia Limited Group and Uranium Exploration Australia Limited. He has been the Company Secretary and Chief Financial Officer since 11 November 2008 and to the date of this report.

### Principal activities

The principal activity of the Company during the financial year was mineral exploration.

### Operating results

The net result of operations for the financial year was a loss of \$3,935,308 (2008: \$1,217,429).

### Dividends

There were no dividends declared or paid during the year.

### Review of operations

The 08/09 financial year has been one of great achievements for the Company. In moving from the realisation that we were probably sitting on a large resource of iron ore at our Blacksmith E47/882 to indicating the presence of over 500 million tonnes of iron ore, the Company has significantly increased the value of its resource assets even though this may not yet be reflected in the company's market capitalisation.

This was achieved by an intensive reverse circulation and diamond drilling program which evaluated the Exploration Targets\* previously identified by our consultant Dr Richard Russell. The exploration involved the drilling of over 475 holes for about 22,000 metres. At year's end further drilling was under way and is expected to lead to increases in the Identified Resources. Most of the resources identified in 08/09 consisted of channel iron deposits (CID), which are relatively common in the area – recently named (by Rio Tinto), "The Central Hamersley CID Province".

Flinders has discovered that underlying and adjacent to its CID deposits there is a strong development of bedded iron deposit (BID) mineralisation. This BID mineralisation has higher iron and lower silica and alumina than the CID mineralisation but does have slightly elevated phosphorous. It is hoped that blending of the two ore types will lead to the production of a direct shipping ore (DSO) product. At the end of the financial year, work to define the extent and grade of the BID ore was underway. A scoping study was also underway at the end of the financial year. This is designed to assess if the Pilbara iron ore project could become a long-life mine and if a pre-feasibility study is justified.

Other operations during the year included exploration for diamonds and phosphate. At Eurelia, about 25km north of Orroroo, after a re-assessment of existing data, a new round of kimberlite discoveries has commenced and at year's end microdiamond determinations were underway. About 25km south of Orroroo, Flinders has located significant soil phosphate anomalies over a 10km long zone which are likely to become drill evaluation targets after infill sampling and geological mapping.

### Financial position

The net assets of the Company have increased by \$17,644,969 during the financial year from \$29,321,131 at 30 June 2008 to \$46,966,100 at 30 June 2009. This increase has largely resulted from the proceeds from share issues raising \$21,595,364. The Company has been actively undertaking exploration activities and has capitalised \$12,599,921 in exploration expenditure during the current financial year.

The directors believe the Company is in a strong and stable financial position to continue its exploration and development activities.

### Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of Flinders Mines Limited, the results of those operations, or the state of affairs of Flinders Mines Limited in future financial years.

### Future developments, prospects and business strategies

The company's prime objective remains to create wealth for shareholders, and it intends to implement this by developing a significant hematite iron ore mine in the Pilbara region of Western Australia. Iron ore operations have significant infrastructure requirements and it is intended to reach agreement with existing infrastructure owners to arrange mine gate sales or third party rail access and offtake agreements.

It is expected that the main focus of short term future activities will be the carrying out of feasibility studies into a possible iron ore development at the Blacksmith E47/882 in the Company's Pilbara project. Initial field activities are likely to include the drill out of Delta area to JORC Indicated Resource status and the drilling of about 40 large diameter diamond drill holes to collect metallurgical samples for testwork as part of definition of potential product characteristics. This work will provide data to estimate a JORC compliant Indicated Resource which in turn, by the adoption of mining parameters, can be converted to a Probable Reserve – hence leading to a mine plan and a mining schedule.

In the medium term it is hoped a positive bankable feasibility study will lead to a decision to mine and the consequent design and development of a significant iron ore mining operation. In the longer term a Pilbara operation could be supplemented by a magnetite iron ore operation developed on the recently acquired Canegrass magnetite deposit, near Mount Magnet in the emerging mid west region of Western Australia.

The Company is currently reviewing its exploration program for diamonds and phosphate. At year's end some new kimberlites were being located at Eurelia which are expected to lead to a renewed round of bulk sampling for macrodiamonds. Soil phosphate anomalies have been defined near Orroroo and are likely to be evaluated by a round of percussion drilling. The company is also considering commencing a program for the mineral Barite, for use as an oil well drilling mud, based on an historically identified deposit at Yanyarrie, about 40km north of Orroroo.

## Environmental issues

The Company's operations are subject to significant environmental regulation under both Commonwealth and relevant State legislation in relation to discharge of hazardous waste and materials arising from any exploration or mining activities and development conducted by the Company on any of its tenements. The Company believes it is not in breach of any environmental obligation.

## Corporate governance

In recognising the need for good practice in respect of corporate behaviour and accountability, the Directors support, and have adhered to, the principles of good corporate governance. Flinders' corporate governance statement follows the financial report.

## Indemnification and insurance of officers

### INDEMNIFICATION

The Company is required to indemnify the directors and other officers of the company against any liabilities incurred by the directors and officers that may arise from their position as directors and officers of the Company. No costs were incurred during the year pursuant to this indemnity.

The Company has entered into deeds of indemnity with each director whereby, to the extent permitted by the *Corporations Act 2001*, the Company agreed to indemnify each director against all loss and liability incurred as an officer of the Company, including all liability in defending any relevant proceedings.

### INSURANCE PREMIUMS

Since the end of the previous year the Company has paid insurance premiums of \$16,500 to insure the directors and officers in respect of directors and officers' liability and legal expenses insurance contracts.

## Meetings of directors

During the financial year, 21 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors meetings		Audit committee meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
R M Kennedy	18	18	3	3
K J A Wills	18	18	-	-
E J Vickery	18	17	3	3
A J Andrejewskis	2	2	-	-
N J Corlis	3	3	-	-
K J Lines	1	1	-	-
G M May	3	3	-	-

## Options

Since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows. There were no amounts unpaid on shares issued.

Date	Number of shares	Exercise price
3 September 2009	115,000	\$0.045

At the date of this report, the unissued ordinary shares of Flinders Mines Limited under option are as follows:

Grant Date	Date of expiry	Exercise price	Number of options
10 April 2007	20 March 2012	\$0.017	1,700,000
6 March 2008	20 March 2012	\$0.017	400,000
6 March 2008	5 March 2013	\$0.084	782,500
4 February 2009	3 February 2014	\$0.045	2,331,666
27 August 2009	26 August 2014	\$0.055	480,000
			5,694,166

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

## Proceedings on behalf of company

No person has applied for leave of court under section 237 of the *Corporations Act 2001* to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the financial year.

## Non-audit services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision on non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

All non-audit services are reviewed and approved by the Audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

There were no fees for non-audit services paid/payable to the external auditors during the year ended 30 June 2009.

## REMUNERATION REPORT – AUDITED

### Remuneration of directors and key management personnel

#### A) PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The Company's policy for determining the nature and amounts of emoluments of board members and senior executive officers of the Company is as follows:

The Company's constitution specifies that the total amount of remuneration of Non-executive Directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of Non-executive Directors has been set at \$300,000 per annum. Directors may apportion any amount up to this maximum amount amongst the Non-executive Directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as directors. The remuneration of the Managing Director is determined by the Non-executive Directors on the Board as part of the terms and conditions of his employment which are subject to review from time to time. The remuneration of other executive officers and employees is determined by the Managing Director subject to the approval of the board.

Non-executive Director remuneration is by way of fees and statutory superannuation contributions. Non-executive Directors do not participate in schemes designed for remuneration of executives nor do they receive options or bonus payments and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The Company's remuneration structure is based on a number of factors including the particular experience and performance of the individual in meeting key objectives of the Company. The Board is responsible for assessing relevant employment market conditions and achieving the overall, long term objective of maximising shareholder benefits, through the retention of high quality personnel.

The Company does not presently emphasise payment for results through the provision of cash bonus schemes or other incentive payments based on key performance indicators of the Company given the nature of the Company's business as a recently listed mineral exploration entity and the current status of its activities. However the Board may approve the payment of cash bonuses from time to time in order to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

The Company also has an Employee Share Option Plan approved by shareholders that enables the Board to offer eligible employees options to acquire ordinary fully paid shares in the Company. Under the terms of the plan, options for ordinary fully paid shares may be offered to the Company's eligible employees at no cost unless otherwise determined by the Board in accordance with the terms and conditions of the plan. The objective of the plan is to align the interests of employees and shareholders by providing employees of the Company with the opportunity to participate in the equity of the Company as an incentive to achieve greater success and profitability for the Company and to maximise the long term performance of the Company.

The employment conditions of the Managing Director, Dr Wills are formalised in a contract of employment. The base salary as set out in the employment contract is reviewed annually. The Managing Director's contract may be terminated on one month's notice by either party. The Company may terminate the contract without notice in serious instances of misconduct.

#### B) DETAILS OF REMUNERATION

This report details the nature and amount of remuneration for each key management person of the Company and for the executives receiving the highest remuneration.

The names and positions held by Directors and key management personnel of the Company during the financial year are:

Name	Position
Mr R M Kennedy	Chairman, non-executive
Mr E J Vickery	Director, non-executive
Dr K J A Wills	Managing Director, executive
Mr D W Godfrey	Chief Financial Officer and Company Secretary (since 11 November 2008)
Mr R W C Willson	Chief Financial Officer and Company Secretary (resigned 11 November 2008)
Mr A J Andrejewskis	Alternate Director (since 12 March 2009)
Mr N J Corlis	Alternate Director (since 12 March 2009)
Mr K J Lines	Alternate Director (appointed 7 October 2008, resigned 12 March 2009)
Mr G M May	Alternate Director

2009 Primary benefits	Short-term employment benefits				Post employment benefits	Share-based payments	Total
	Directors fees	Salary	Non cash items	Cash bonus	Super contributions	Options	
	\$	\$	\$	\$	\$	\$	
Mr R M Kennedy	82,661	-	-	-	7,439	-	90,100
Mr E J Vickery*	50,000	-	-	-	-	-	50,000
Dr K J A Wills**	-	126,647	-	-	11,353	-	138,000
Mr D W Godfrey***	-	104,975	-	-	9,358	2,287	116,620
Mr A J Andrejewskis	-	-	-	-	-	-	-
Mr N J Corlis	-	243,660	-	-	17,340	21,225	282,225
Mr K J Lines	-	-	-	-	-	-	-
Mr G M May	-	-	-	-	-	-	-
Mr R W C Willson	-	95,520	-	-	6,865	-	102,385
	132,661	570,802	-	-	52,355	23,512	779,330

Share-based payments:

	Date granted	Number of options	Value per option	Total value	% of remuneration	Expiry date	Exercise price
			\$	\$			\$
Mr D W Godfrey	4/2/2009	53,334	0.0429	2,287	1.96	3/2/2014	0.045
Mr N J Corlis	4/2/2009	495,000	0.0429	21,225	7.50	3/2/2014	0.045
				23,512			

2008 Primary benefits	Short-term employment benefits				Post employment benefits	Share-based payments	Total
	Directors fees	Salary	Non cash items	Cash bonus	Super contributions	Options	
	\$	\$	\$	\$	\$	\$	
Mr R M Kennedy	77,981	-	-	-	7,019	-	85,000
Mr E J Vickery*	50,000	-	-	-	-	-	50,000
Dr K J A Wills**	-	124,231	-	-	11,181	-	135,412
Mr G M May	-	-	-	-	-	-	-
Mr R W C Willson	-	197,432	-	-	16,325	-	213,757
	127,981	321,663	-	-	34,525	-	484,169

\* Director's fees for Mr Vickery are paid to a related entity of the Director

\*\* Dr Wills' remuneration was paid to a related entity of the Director

\*\*\* Mr Godfrey is employed by FME Exploration Services Pty Ltd. His services are provided as part of the services agreement in place between FME Exploration Services Pty Ltd and Flinders Mines Ltd. The management fees paid by Flinders Mines Ltd are outlined in Note 24. This agreement was formalised 3 August 2006.

The Directors conclude that there are no executives requiring disclosure other than those listed.

### C) SERVICE AGREEMENTS

During the financial year, the Company reviewed the employment agreement of Dr Wills in respect of his services as Managing Director. An agreement with no fixed term was agreed with a salary set at \$138,000 per annum inclusive of superannuation guarantee contributions to be reviewed periodically. Dr Wills was also Managing Director of Maximus Resources Limited for the financial year and up to 13 July 2009. Subsequent to reporting date and in light of Dr Wills' full time commitment to the Company in the future, the Board negotiated a new contract with no fixed term at a salary of \$325,000 per annum inclusive of superannuation guarantee contributions to be reviewed annually and with termination on one month's notice by either party. Messrs Kennedy and Vickery are engaged as directors without formal employment agreements. There were no post employment retirement benefits previously approved by members of the Company in a general meeting, nor were any paid to directors of the Company. There were no post employment retirement benefits paid or payable to other key management personnel.

### D) SHARE-BASED COMPENSATION

#### Employee Share Option Plan

The Company has an Employee Share Option Plan approved by shareholders that enables the board to offer eligible employees options to acquire ordinary fully paid shares in the Company. Under the terms of the plan, options to acquire ordinary fully paid shares may be offered to the Company's eligible employees at no cost unless otherwise determined by the Board in accordance with the terms and conditions of the plan. During the year 2,505,000 options with a fair value of \$107,413 were issued to employees at no cost. The issue was not based on any performance criteria. No employee share options were issued to the Directors during the year.

#### Options granted as remuneration

Apart from the options granted under the Company's Employee Share Option Plan as detailed above, no other options were granted to directors or key management personnel of the Company during the financial year.

#### Shares issued on exercise of remuneration options

No shares were issued to directors as a result of the exercise of remuneration options during the financial year.

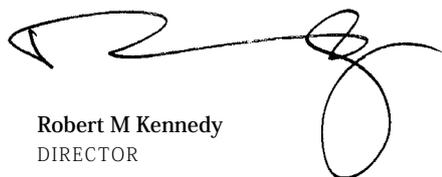
#### Directors' interests in shares and options

Directors' relevant interests in shares and options of the Company are disclosed in Note 5 to the accounts.

### AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2009 has been received and can be found on page 9 of the Directors' report.

Dated at Adelaide this 18th day of September 2009 and signed in accordance with a resolution of the Directors.



**Robert M Kennedy**  
DIRECTOR

# Auditor's Independence Declaration



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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 audit of Flinders Mines Limited for the year ended 30 June 2009, 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



SJ Gray  
Partner

Signed at Wayville on this 18<sup>th</sup> day of September 2009

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# Income Statement

For the year ended 30 June 2009

	Note	2009	2008
		\$	\$
Interest revenue	2	791,898	550,667
Marketing expense	3	255,036	155,012
Administrative expense	3	1,961,830	993,844
Finance costs	3	4,899	1,441
Exploration expenditure written off	3	357,783	355,519
Impairment of financial assets		2,118,500	-
Loss on disposal of assets		15,374	-
Profit/(loss) before income tax		(3,921,524)	(955,149)
Income tax expense/(benefit)	4	13,784	262,280
Profit/(loss) for the period attributable to shareholders of the company		(3,935,308)	(1,217,429)
Basic earnings/(loss) per share (cents)	7	(0.329)	(0.126)
Diluted earnings/(loss) per share (cents)	7	(0.303)	(0.126)

*The accompanying notes form part of these financial statements.*

# Balance Sheet

As at 30 June 2009

	Note	2009	2008
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	20,522,605	13,925,018
Trade and other receivables	9	1,024,792	493,671
Other current assets	10	27,000	27,000
<b>Total current assets</b>		<b>21,574,397</b>	<b>14,445,689</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	14	889,595	551,647
Investments accounted for using the equity method	11	1	1
Available-for-sale financial assets	13	394,000	2,372,500
Exploration and evaluation expenditure	15	24,937,304	12,337,383
<b>Total non-current assets</b>		<b>26,220,900</b>	<b>15,261,531</b>
<b>Total assets</b>		<b>47,795,297</b>	<b>29,707,220</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	753,895	366,476
Short-term provisions	17	75,302	19,613
<b>Total current liabilities</b>		<b>829,197</b>	<b>386,089</b>
<b>Total liabilities</b>		<b>829,197</b>	<b>386,089</b>
<b>Net assets</b>		<b>46,966,100</b>	<b>29,321,131</b>
<b>EQUITY</b>			
Issued capital	18	54,663,777	33,068,413
Reserves	19	202,763	217,850
Retained earnings		(7,900,440)	(3,965,132)
<b>Total equity</b>		<b>46,966,100</b>	<b>29,321,131</b>

The accompanying notes form part of these financial statements.

# Statement of Changes in Equity

For the year ended 30 June 2009

	Issued capital	Available-for-sale financial assets reserve	Option reserve	Retained earnings	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2007</b>	15,488,349	1,198,909	4,025	(2,747,703)	13,943,580
Loss for the period	-	-	-	(1,217,429)	(1,217,429)
Shares issued during the period	17,580,064	-	-	-	17,580,064
Revaluation of financial assets	-	(1,076,409)	-	-	(1,076,409)
Options issued during the period	-	-	91,325	-	91,325
<b>Balance at 30 June 2008</b>	<b>33,068,413</b>	<b>122,500</b>	<b>95,350</b>	<b>(3,965,132)</b>	<b>29,321,131</b>
Loss for the period	-	-	-	(3,935,308)	(3,935,308)
Shares issued during the period	21,595,364	-	-	-	21,595,364
Revaluation of financial assets	-	(2,241,000)	-	-	(2,241,000)
Impairment to income statement	-	2,118,500	-	-	2,118,500
Options issued during the period	-	-	107,413	-	107,413
<b>Balance at 30 June 2009</b>	<b>54,663,777</b>	<b>-</b>	<b>202,763</b>	<b>(7,900,440)</b>	<b>46,966,100</b>

The accompanying notes form part of these financial statements.

# Cash Flow Statement

For the year ended 30 June 2009

	Note	2009	2008
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		895,548	363,096
Payments to suppliers to suppliers and employees		(1,754,491)	(781,557)
<b>Net cash provided by (used in) operating activities</b>	21	(858,943)	(418,461)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for investments		(262,500)	(700,000)
Purchase of plant and equipment		(492,201)	(458,830)
Proceeds from disposal of plant and equipment		25,000	-
Payment for exploration activities		(12,957,704)	(3,418,824)
Loans to related entities	24	(275,000)	(132,310)
<b>Net cash provided by (used in) investing activities</b>		(13,962,405)	(4,709,964)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		22,007,033	18,192,049
Transaction costs		(588,098)	(874,265)
<b>Net cash provided by (used in) financing activities</b>		21,418,935	17,317,784
Net increase/(decrease) in cash held		6,597,587	12,189,359
Cash at beginning of financial year		13,925,018	1,735,659
<b>Cash at end of financial year</b>	8(a)	20,522,605	13,925,018

The accompanying notes form part of these financial statements.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The financial report includes separate financial statements for Flinders Mines Limited as an individual entity.

### Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group interpretations and the Corporations Act 2001.

### Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Flinders Mines Limited complies with International Financial Reporting Standards (IFRS).

### Historical cost convention

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### Accounting policies

#### A) INCOME TAX

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset or deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will

be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realization and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realization and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### B) PLANT AND EQUIPMENT

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

##### Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the assets' carrying amount or recognised as separate assets as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### **Depreciation**

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the Company commencing from the time the asset is held ready for use. The depreciation rates used for plant and equipment are from 12.5 to 40%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

### **C) EXPLORATION EXPENDITURE**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area of interest are written off in full against profit in the year in which the decision to abandon the area of interest is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

### **D) FINANCIAL INSTRUMENTS**

#### **Recognition and initial measurement**

Financial instruments, incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for the financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

#### **Derecognition**

Financial assets are derecognised where the contractual rights to receipt of flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### **Classification and subsequent measurement**

##### **I) LOANS AND RECEIVABLES**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

##### **II) AVAILABLE-FOR-SALE FINANCIAL ASSETS**

Available-for-sale financial assets, comprising principally marketable equity securities are non-derivative financial assets that are either designated as such or that are not classified in any other category. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed determinable payments. Available-for-sale financial assets are measured at fair value at the reporting date, with changes in value going through equity.

##### **III) FINANCIAL LIABILITIES**

Non-derivative financial liabilities are recognised at amortised value, comprising original debt less principal payments and amortisation.

#### **Fair value**

Fair value is determined based upon current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### **Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

#### **E) IMPAIRMENT OF ASSETS**

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which it belongs.

#### **F) INVESTMENTS IN ASSOCIATES**

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognises the Company's share of post acquisition reserves of its associates.

#### **G) INTERESTS IN JOINT VENTURES**

The Company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in appropriate items of the financial statements. Details of the Company's interests are shown at Note 12.

The Company's interests in joint venture entities are brought to account using the cost method of accounting in the financial statements.

#### **H) EMPLOYEE BENEFITS**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been discounted using the government bond rate closest to expiry date.

#### **Equity-settled compensation**

The cost of equity-settled transactions is measured by the fair value at the date at which the equity instruments are granted. The fair value is determined using the Black-Scholes pricing model. The cost is recognised as an expense in the income statement with a corresponding increase in the share option reserve or issued capital when the options or shares are issued.

#### **I) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less, and bank overdrafts.

#### **J) REVENUE**

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

#### **K) GOODS AND SERVICES TAX (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### **L) COMPARATIVE FIGURES**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### **M) TRADE AND OTHER PAYABLES**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

#### **N) EARNINGS PER SHARE**

Basic earnings per share is calculated as net profit attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Company divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

#### **O) NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS**

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows.

AASB 3: *Business Combinations*, AASB 127: *Consolidated and Separate Financial Statements*, AASB 2008-3: *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]* (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136]* (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Company will be unable to be determined. The following changes to accounting requirements are included:

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Company's policy);
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Company will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

AASB 8: *Operating Segments* and AASB 2007-3: *Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]* (applicable for annual reporting periods commencing from 1 January 2009). AASB

8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.

AASB 101: *Presentation of Financial Statements*, AASB 2007-8: *Amendments to Australian Accounting Standards arising from AASB 101*, and AASB 2007-10: *Further Amendments to Australian Accounting Standards arising from AASB 101* (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Company. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

AASB 123: *Borrowing Costs* and AASB 2007-6: *Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]* (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Company as a policy of capitalising qualifying borrowing costs has been maintained by the Company.

AASB 2008-1: *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2]* (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

AASB 2008-2: *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 and Interpretation 2]* (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.

AASB 2008-5: *Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5)* and AASB 2008-6: *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6)* detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.

AASB 2008-13: *Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110]* (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.

AASB Interpretation 17: *Distributions of Non-cash Assets to Owners* (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Company does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Company's financial statements.

### Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

### Key estimates

#### IMPAIRMENT

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

### EXPLORATION AND EVALUATION

The Company's policy for exploration and evaluation is discussed in Note 1(c). The application of this policy requires management to make certain assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploration, then the relevant capitalised amount will be written off through the income statement.

## 2 REVENUE

	2009	2008
	\$	\$
<b>Operating activities</b>		
Interest received from other persons	791,898	550,667
<b>Total</b>	<b>791,898</b>	<b>550,667</b>

## 3 EXPENSES

	2009	2008
	\$	\$
<b>Marketing</b>		
Company promotion	46,795	9,591
Sponsorship	8,850	15,045
Corporate consulting	36,402	75,774
Public relations	18,324	7,719
Subscriptions	4,221	2,475
Conferences	85,587	21,140
Shareholder reports	6,575	4,104
Travel and accommodation	48,282	16,219
Other	-	2,945
<b>Total</b>	<b>255,036</b>	<b>155,012</b>

### Administration

Accounting	23,500	3,459
ASX fees	86,119	82,891
Audit fees	21,750	20,500
Depreciation	17,861	-
Insurance	43,261	22,577
Legal fees	64,934	25,625
Management services	666,251	235,889
Office expenses	10,369	1,004
Employee benefits	568,185	162,570
Staff recruitment	87,664	173,590
Share registry	218,148	153,710
Other	153,788	112,029
<b>Total</b>	<b>1,961,830</b>	<b>993,844</b>

### Exploration expenses

General exploration expenditure written off	357,783	355,519
Capitalised exploration expenditure impaired	-	-
<b>Total</b>	<b>357,783</b>	<b>355,519</b>

#### 4 INCOME TAX EXPENSE

	2009	2008
	\$	\$
a) The components of tax expense comprise:		
Current tax	176,430	262,280
Deferred tax	-	-
Under provision in respect of prior year losses	(162,645)	-
	<u>13,785</u>	<u>262,280</u>
b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2008: 30%)	(1,176,458)	(286,545)
Add:		
Tax effect of:		
- Non-allowable items	636,390	25,213
- Share options expensed during year	32,224	27,398
- Share placement issue costs	-	262,280
- Recognition of timing differences not brought to account	684,274	233,934
Less:		
Tax effect of:		
- Recognition of timing differences not previously brought to account	162,645	-
Income tax attributable to entity	<u>13,785</u>	<u>262,280</u>

Deferred tax assets on the timing differences and tax losses of \$1,791,256 (2008: \$1,089,876) have not been recognised as they do not meet the recognition criteria as outlined in Note 1(a) in the financial statements.

#### 5 KEY MANAGEMENT PERSONNEL

##### a) Key management personnel remuneration

	2009	2008
	\$	\$
Short-term employee benefits	703,463	449,644
Post-employment benefits	52,355	34,525
Share-based payments	23,512	-
	<u>779,330</u>	<u>484,169</u>

Detailed remuneration disclosures are provided in sections (a) to (c) of the Remuneration report.

## 5 KEY MANAGEMENT PERSONNEL CONTINUED

### b) Equity instruments relating to key management personnel

#### OPTIONS AND RIGHTS HOLDINGS

Number of options held by key management personnel:

2009	Balance at 1.7.2008	Issued as remuneration	(Exercised/ expired)/ purchased	Balance at 30.6.2009	Vested during the Year	Vested and exercisable at 30.6.2009
R M Kennedy*	16,479,958	-	(16,479,958)	-	-	-
K J A Wills	2,950,000	-	(2,950,000)	-	-	-
E J Vickery*	438,370	-	(438,370)	-	-	-
A J Andrejewskis	-	-	-	-	-	-
N J Corlis	-	495,000	-	495,000	495,000	495,000
K J Lines	-	-	-	-	-	-
G M May	85,674	-	(85,674)	-	-	-
D W Godfrey	-	53,334	(53,334)	-	53,334	-
R W C Willson#*	1,000,000	-	(1,000,000)	-	-	-
	20,954,002	548,334	(20,707,336)	495,000	548,334	495,000

During the year 548,334 options were granted as compensation to key management, other than Directors, from the Flinders Mines Limited Employee Share Option Plan with a fair value of \$23,512.

2008	Balance at 1.7.2007	Issued as remuneration	(Exercised/ expired)/ purchased	Balance at 30.6.2008	Vested during the year	Vested and exercisable at 30.6.2008
R M Kennedy*	5,154,958	-	11,325,000	16,479,958	16,479,958	16,479,958
K J A Wills	2,950,000	-	-	2,950,000	2,950,000	2,950,000
E J Vickery*	438,370	-	-	438,370	438,370	438,370
G M May	85,674	-	-	85,674	85,674	85,674
R W C Willson#*	700,000	-	300,000	1,000,000	1,000,000	1,000,000
	9,329,002	-	11,625,000	20,954,002	20,954,002	20,954,002

#### SHARE HOLDINGS

Number of shares held by key management personnel:

2009	Balance 1.7.2008	Received as Compensation	Exercise of Options	Net change other	Balance 30.6.2009
R M Kennedy*	10,340,000	-	16,479,958	463,059	27,283,017
K J A Wills	12,020,000	-	250,000	(600,000)	11,670,000
E J Vickery*	2,786,598	-	428,370	148,678	3,363,646
A J Andrejewskis	-	-	-	-	-
N J Corlis	-	-	-	-	-
K J Lines	-	-	-	-	-
G M May	620,000	-	-	-	620,000
D W Godfrey	-	-	53,334	94,339	147,673
R W C Willson#*	-	-	-	-	-
	25,766,598	-	17,211,662	106,076	43,084,336

2008	Balance 1.7.2007	Received as compensation	Exercise of options	Net change other	Balance 30.6.2008
R M Kennedy*	16,200,000	-	-	(5,860,000)	10,340,000
K J A Wills	12,000,000	-	-	20,000	12,020,000
E J Vickery*	2,726,598	-	-	60,000	2,786,598
G M May	685,392	-	-	(65,392)	620,000
R W C Willson#*	-	-	-	-	-
	31,611,990	-	-	(5,845,392)	25,766,598

\* Held by Directors and entities in which Directors have a relevant interest.

# Mr Willson ceased as a key management person as at 11 November 2008.

## 6 AUDITOR'S REMUNERATION

	2009	2008
	\$	\$
Remuneration of the auditor of the Company for:		
- Auditing and reviewing the financial report	21,750	20,500
	21,750	20,500

## 7 EARNINGS PER SHARE (EPS)

	2009	2008
Earnings used to calculate basic and dilutive EPS	(\$3,935,308)	(\$1,217,429)
Weighted average number of ordinary shares outstanding during the year used to calculate basic EPS	1,196,289,285	969,068,285
Weighted average number of options outstanding during the year used to calculate diluted EPS	4,500,267	-
Weighted average number of ordinary shares outstanding during the year used to calculate diluted EPS	1,200,789,552	969,068,285

*The number of options on issue at 30 June 2009 was 5,329,166 (2008: 368,207,139). These have a dilutive effect and a weighted average number of 4,500,267 has been included in the calculation of diluted earnings per share.*

## 8 CASH AND CASH EQUIVALENTS

	2009	2008
	\$	\$
Cash at bank and in hand	8,177,605	1,990,018
Short-term bank deposits	12,345,000	11,935,000
	20,522,605	13,925,018

The effective interest rate on short-term bank deposits was 3.4% (2008: 7.8%). These deposits have an average maturity of 121 days.

### a) Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	20,522,605	13,925,018
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### b) Risk exposure

The Company's exposure to interest rate risk is discussed at Note 26.

## 9 TRADE AND OTHER RECEIVABLES

	2009	2008
	\$	\$
<b>Current</b>		
Interest receivable	87,320	191,291
Receivable from FME Exploration Services Pty Ltd*	525,000	250,000
Trade and other receivables	412,472	52,380
	1,024,792	493,671

\* The Company advanced this amount to assist in the funding of working capital. The entity provides support to the associated company to ensure it can pay its debts as and when they fall due and payable.

### a) Past due, not impaired

There are no material trade and other receivables that are considered to be past due and impaired.

### b) Associated company receivable

This receivable from the associated company is repayable at call and interest at market rates can be charged at the discretion of the Directors of Flinders. The Company will not seek repayment where such repayments would prejudice the associated company's ability to meet any obligations as and when they fall due.

## 10 OTHER CURRENT ASSETS

	2009	2008
	\$	\$
Security bonds	27,000	27,000
	27,000	27,000

## 11 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Interests are held in the following associated companies.

Name	Principal activities	Country of incorporation	Shares	Ownership interest		Carrying amount of investment	
				2009 %	2008 %	2009 \$	2008 \$

Unlisted:

FME Exploration Services Pty Ltd	Administration services	Australia	Ord	33.3	33.3	1	1
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### a) Summarised presentation of aggregate assets, liabilities and performance of associate.

	2009	2008
	\$	\$
Current assets	386,586	366,430
Non current assets	428,969	478,183
Total assets	815,555	844,613
Current liabilities	815,552	844,610
Total liabilities	815,552	844,610
Net assets	3	3
Share of associate's profit after tax	-	-

The Company's share of contingent liabilities of FME Exploration Services Pty Ltd amounts to \$83,334.

## 12 JOINT VENTURES

The Company has the following interests in unincorporated joint ventures:

State	Agreement name	Parties	Summary	Consideration
WA	Prenti Agreement	Flinders Mines Limited (FMS) and Prenti Exploration Pty Ltd	FMS has earned a 100% interest in exploration licences E47/882, E47/1016 and E47/1306 by spending \$2 million on exploration.	Prenti retain a right to a 5% net profit production royalty.
WA	Hamersley Reciprocal Diamond/Iron Ore Rights Agreement	FMS, Prenti Exploration Pty Ltd and FMG Pilbara Pty Ltd	Flinders/Prenti and FMG have agreed to grant reciprocal rights to explore and mine iron ore on the Flinders Tenements and to explore and mine diamonds on the FMG Tenements in the Hamersley Ranges.	If FMG proceeds to mining iron ore on the Flinders Tenements, FMG shall pay Flinders/Prenti a 1% royalty on iron ore production for first 8Mt mined.
SA	Nackara Diamond Project Extension of Option Agreement	FMS, Admona Mining and Exploration Pty Ltd, Novec Pty Ltd and J J Simnovec	FMS can exercise the purchase of 100% of the diamond rights in exploration licences EL 2977, EL 3225 and EL 3434 for a cash purchase price of \$1 million.	Five annual option payments of \$50,000 for a total of \$250,000 already paid.
SA	Filsell Grainger Diamond Project Letter of Offer	FMS, I R Filsell, M A Filsell and W J Filsell	FMS can earn 100% of the diamond rights in exploration licences EL2864 and EL3378 by expenditure of \$250,000.	If FMS proceeds to mining diamonds on the project area, FMS will pay the Filsell party a 5% net profit royalty on diamond production.
SA	Base and Precious Metal Rights FMS Springfield and Jamestown Projects – Purchase Agreement	FMS and Copper Range Limited	Copper Range Limited (CRL) has earned a 50% interest in the base and precious metal rights in the Flinders Ranges Project area by expenditure of \$1 million and can earn a 90% interest once it has spent \$2.25 million.	CRL paid \$100,000 and issued 1 million ordinary CRL shares to FMS.
SA	Central Gawler Craton Joint Venture	FMS and Tasman Resources NL	FMS can earn a 70% interest in the project area diamond rights only by expenditure of \$750,000 over a 4 year period.	
SA	Flinders Island/Venus Bay Joint Venture	FMS, Tawana Resources NL and Orogenic Exploration Pty Ltd	FMS can earn a 50% interest in the project by exploration expenditure of \$1 million and a further 20% interest by expenditure of a further \$1 million.	
SA	Nackara/Methuen Hill Joint Venture	FMS, Colonial Copper Company Pty Ltd and Primary Resources Limited	FMS earns 100% of diamond rights in 2 ELs by flying helimag survey and by spending a total of \$120,000 over a 4 year period.	CCC will receive a 2.5% net profit royalty on any future diamond production.
SA	Springfield Project Diamond Rights	FMS and International Metals Pty Ltd	FMS can earn 100% of diamond rights in EL4003 by expenditure of \$100,000 over a 2 year period.	If FMS proceeds to mining diamonds on the project area, FMS will pay a 1.5% net sales royalty on diamond production.

## 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2008
	\$	\$
Available-for-sale financial assets	394,000	2,372,500
Available-for-sale financial assets comprise		
Listed investments at fair value		
- Shares in listed companies	394,000	2,372,500
<b>Total available-for-sale financial assets</b>	<b>394,000</b>	<b>2,372,500</b>

Available-for-sale financial assets comprise investments in the ordinary capital of Maximus Resources Limited and Copper Range Limited. There are no fixed returns or fixed maturity dates attached to these investments. On occasion, the Company acquires shares in listed entities through consideration for commercial transactions. These are held as available-for-sale and the value marked-to-market at financial year-end.

## 14 PLANT AND EQUIPMENT

	2009	2008
	\$	\$
Plant and equipment at cost	1,077,740	625,913
Accumulated depreciation	(188,145)	(74,266)
<b>Total plant and equipment</b>	<b>889,595</b>	<b>551,647</b>

### Movements in carrying amounts:

Movements in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

Plant and equipment	2009	2008
	\$	\$
Balance at the beginning of the year	551,647	136,283
Additions	494,996	458,830
Disposals	(43,169)	-
Depreciation	(113,879)	(43,466)
<b>Balance at the end of year</b>	<b>889,595</b>	<b>551,647</b>

## 15 CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

	2009	2008
	\$	\$
Exploration and evaluation – 100% owned	18,894,320	7,404,782
Exploration and evaluation phases – Joint Ventures	6,842,984	4,932,601
<b>Total exploration and evaluation expenditure</b>	<b>24,937,304</b>	<b>12,337,383</b>

### MOVEMENTS IN CARRYING AMOUNTS:

#### Exploration and evaluation

Balance at the beginning of the year	12,337,383	9,274,078
Amounts capitalised during the year	12,599,921	3,063,305
<b>Carrying amount at the end of year</b>	<b>24,937,304</b>	<b>12,337,383</b>

The ultimate recoupment of costs carried forward for exploration phase is dependent on the successful development and commercial exploitation or sale of the respective areas.

## 16 TRADE AND OTHER PAYABLES

	2009	2008
	\$	\$
<b>Unsecured</b>		
Trade payables	(1,281)	22,303
Sundry payables and accrued expenses	755,176	344,173
	<b>753,895</b>	<b>366,173</b>

## 17 SHORT-TERM PROVISIONS

	2009	2008
	\$	\$
Employee entitlements	75,302	19,613
Opening balance at beginning of year	19,613	1,049
Additional provisions	70,934	18,564
Amounts used	(15,245)	-
<b>Balance at end of year</b>	<b>75,302</b>	<b>19,613</b>

## 18 ISSUED CAPITAL

	2009	2008
	\$	\$
1,430,989,208 (2008: 1,109,678,754) fully paid ordinary shares	54,663,777	33,068,413
	Number	Number
<b>a) Ordinary shares</b>		
At the beginning of the reporting period	1,109,678,754	595,540,919
Shares issued during the year		514,137,835
– 2 July 2008	197,087	
– 9 July 2008	1,101,000	
– 17 July 2008	27,000	
– 18 July 2008	150,000	
– 1 August 2008	50,000	
– 14 August 2008	2,016,500	
– 27 August 2008	41,031	
– 8 September 2008	1,848,566	
– 15 September 2008	3,524,825	
– 23 September 2008	2,876,257	
– 29 September 2008	13,046,425	
– 7 October 2008	69,095,230	
– 14 October 2008	4,411,476	
– 10 March 2009	150,000	
– 15 May 2009	700,000	
– 19 May 2009	16,923,077	
– 20 May 2009	94,339,621	
– 29 May 2009	53,334	
– 3 June 2009	5,000	
– 30 June 2009	110,753,737	
At reporting date	1,430,989,208	1,109,678,754

- i) On 2 July 2008 197,087 shares were issued at 10 cents as a result of the exercise of options
- ii) On 9 July 2008 1,101,000 shares were issued at 10 cents as a result of the exercise of options
- iii) On 17 July 2008 27,000 shares were issued at 10 cents as a result of the exercise of options
- iv) On 18 July 2008 150,000 shares were issued at 10 cents as a result of the exercise of options
- v) On 1 August 2008 50,000 shares were issued at 8.4 cents as a result of the exercise of options
- vi) On 14 August 2008 2,016,500 shares were issued at 10 cents as a result of the exercise of options
- vii) On 27 August 2008 41,031 shares were issued at 10 cents as a result of the exercise of options
- viii) On 8 September 2008 1,848,566 shares were issued at 10 cents as a result of the exercise of options
- ix) On 15 September 2008 3,524,825 shares were issued at 10 cents as a result of the exercise of options
- x) On 23 September 2008 2,876,257 shares were issued at 10 cents as a result of the exercise of options
- xi) On 29 September 2008 13,046,425 shares were issued at 10 cents as a result of the exercise of options
- xii) On 7 October 2008 69,095,230 shares were issued at 10 cents as a result of the exercise of options
- xiii) On 14 October 2008 4,411,764 shares were issued at 17 cents to the vendors for the acquisition of WA tenements
- xiv) On 10 March 2009 150,000 shares were issued at 3.6 cents as a result of the exercise of options
- xv) On 15 May 2009 700,000 shares were issued at 1.7 cents as a result of the exercise of options
- xvi) On 19 May 2009 16,923,077 shares were issued at 6.5 cents to the vendors for the acquisition of WA tenements
- xvii) On 20 May 2009 94,339,621 shares were issued at 5.3 cents as a result of a placement
- xviii) On 29 May 2009 53,334 shares were issued at 4.5 cents as a result of the exercise of options
- xix) On 3 June 2009 5,000 shares were issued at 4.5 cents as a result of the exercise of options
- xx) On 30 June 2009 110,753,737 shares were issued at 5.3 cents as a result of a Share Purchase Plan

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

### b) Options

For information relating to the Flinders Mines Limited Employee Share Option Plan including details of options issued and exercised during the financial year and the options outstanding at year end refer to Note 22 Share Based Payments.

### c) Capital management

The Company has no debt capital. There are no externally imposed capital requirements.

The Company's debt and capital includes ordinary share capital, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year. This strategy is to ensure that the Company has no debt.

## 19 RESERVES

### a) Share option reserve

The Share option reserve records items recognised as expenses on valuation of employee options and options issued to external parties in consideration for goods and services rendered.

### b) Available-for-sale reserve

Changes in the fair value of instruments, such as equities, classified as available for sale financial assets, revaluation reserve, as described in Note 1(d)(ii). Amounts are recognised in the income statement when the associated assets are sold or impaired.

## 20 COMMITMENTS FOR EXPLORATION AND JOINT VENTURE EXPENDITURE

In order to maintain current rights of tenure to exploration tenements the Company will be required to outlay in the year ending 30 June 2010 amounts of approximately \$379,000 in respect of tenement lease rentals and to meet minimum expenditure requirements pursuant to various joint venture arrangements.

## 21 CASH FLOW INFORMATION

	2009	2008
	\$	\$
Profit/(loss) after tax	(3,935,308)	(1,217,429)
<b>Non-cash flows in profit</b>		
Depreciation	113,879	43,466
Issue of options to employees	107,413	91,325
Deferred tax asset written off	176,429	262,280
Exploration expenditure written off	357,783	355,519
Impairment of financial assets	2,118,500	-
Loss on disposal of assets	15,374	-
<b>Cash flows excluded from profit attributable to operating activities</b>		
<b>Changes in operating assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(256,121)	(221,382)
Increase/(decrease) in trade payables and accruals	387,419	249,196
Increase/(decrease) in provisions	55,689	18,564
<b>Cash flows from operations</b>	<b>(858,943)</b>	<b>(418,461)</b>

## 22 SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2009.

The Flinders Mines Limited Employee Share Option Plan enables the Board, at its discretion, to issue to employees of the Company or its associated companies. Each option will have a life of five years and be exercisable at a price determined by the Board. This price will not be below the market price of a share at the time of issue.

On 10 April 2007 4,025,000 options were issued to employees under the Company's employee option plan. The options are exercisable at 1.7 cents on or before 20 March 2012. The options hold no voting or dividend rights.

On 31 January 2008 150,000 options were issued to employees under the Company's employee option plan. The options are exercisable at 3.6 cents on or before 14 March 2009. The options hold no voting or dividend rights.

On 6 March 2008 832,500 options were issued to employees under the Company's employee option plan. The options are exercisable at 8.4 cents on or before 5 March 2013. The options hold no voting or dividend rights.

On 4 February 2009 2,505,000 options were issued to employees under the Company's employee option plan. The options are exercisable at 4.5 cents on or before 3 February 2014. The options hold no voting or dividend rights.

	2009		2008	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at beginning of the year	368,207,139	0.100	385,828,978	0.100
Granted	2,505,000	0.045	1,232,500	0.062
Exercised	(94,882,255)	0.099	(18,854,339)	0.093
Expired	(270,500,718)	0.100	-	
Outstanding at end of the year	5,329,166	0.040	368,207,139	0.100
<b>Exercisable at year end</b>	<b>5,329,166</b>	<b>0.040</b>	<b>368,207,139</b>	<b>0.100</b>

The options outstanding at 30 June 2009 had a weighted average exercise price of \$0.040 and a weighted average remaining contractual life of 45 months. Exercise prices range from \$0.017 to \$0.084 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options granted during the year was \$0.0429. This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$0.045
Weighted average life of the options	5 years
Underlying share price	\$0.056
Expected share price volatility	94.92%
Risk free interest rate	3.58%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate. The life of the options is based on the historical exercise patterns, which may not eventuate in the future. Included under "Administrative Expense" in the income statement is \$107,413 (2008: \$91,325) which relates to share-based payments in accordance with the Company Employee Share Option Plan.

## 23 EVENTS SUBSEQUENT TO BALANCE DATE

No circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## 24 RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

### Associated companies

Administrative services were provided by FME Exploration Services Pty Ltd to Flinders Mines Limited for \$666,251.

Flinders Mines Limited advanced FME Exploration Services Pty Ltd \$275,000 to fund working capital. The total receivable from FME Exploration Services Pty Ltd at year end is \$525,000.

Flinders Mines Limited acquired mineral tenements from Maximus Resources Limited for \$1,300,000.

Flinders Mines Limited purchased two vehicles from Maximus Resources Limited for \$62,800.

Flinders Mines Limited took up its entitlement under the Maximus Resources Limited Rights Issue in November 2008 for a total of \$262,500.

## 25 SEGMENT INFORMATION

The entity operates predominately in the mining industry in Australia and as such has no material reportable segments.

## 26 FINANCIAL INSTRUMENTS

### a) Financial risk management

The Company's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and loans to subsidiaries.

#### I) TREASURY RISK MANAGEMENT

The senior executives of the Company regularly analyse interest rate risk exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

#### II) FINANCIAL RISKS

The main risk the Company is exposed to through its financial instruments is liquidity risk.

#### III) LIQUIDITY RISK

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are available to meet the cash demands.

### b) Financial instruments

#### I) INTEREST RATE RISK

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted average effective interest rate %	Floating interest rate \$	Non-interest bearing \$	Total \$
<b>2009</b>				
Financial assets:				
Cash and cash equivalents	3.4	20,522,605	-	20,522,605
Receivables	-	-	862,146	862,146
<b>Total financial assets</b>		<b>20,522,605</b>	<b>862,146</b>	<b>21,384,751</b>
Financial liabilities:				
Payables	-	-	753,895	753,895
<b>Total financial liabilities</b>			<b>753,895</b>	<b>753,895</b>
<b>Net financial assets</b>		<b>20,522,605</b>	<b>108,251</b>	<b>20,630,856</b>
<b>2008</b>				
Financial assets:				
Cash and cash equivalents	7.8	13,925,018	-	13,925,018
Receivables	-	-	493,671	493,671
<b>Total financial assets</b>		<b>13,925,018</b>	<b>493,671</b>	<b>14,418,689</b>
Financial liabilities:				
Payables	-	-	366,476	366,476
<b>Total financial liabilities</b>			<b>366,476</b>	<b>366,476</b>
<b>Net financial assets</b>		<b>13,925,018</b>	<b>127,195</b>	<b>14,052,213</b>

Interest rate risk is managed by the Company with the use of rolling short-term deposits.

## II) NET FAIR VALUES

The Company's financial assets and liabilities are included in the balance sheet at amounts that approximate net fair value.

## III) SENSITIVITY ANALYSIS

### Interest rate risk

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

### Interest rate sensitivity analysis

At 30 June 2009, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2009	2008
	\$	\$
<b>Change in profit</b>		
Increase in interest rate by 2%	410,452	278,500
Decrease in interest rate by 2%	(410,452)	(278,500)
<b>Change in equity</b>		
Increase in interest rate by 2%	410,452	278,500
Decrease in interest rate by 2%	(410,452)	(278,500)

## 27 COMPANY DETAILS

The principal place of business and registered office is:

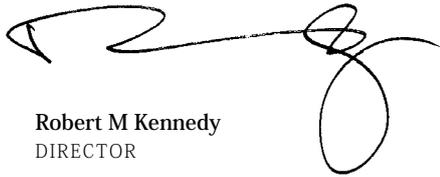
Flinders Mines Limited  
62 Beulah Road  
Norwood  
South Australia 5067

# Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 10 to 29 are in accordance with the *Corporations Act 2001* and
  - a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company
2. the Managing Director and Chief Financial Officer have each declared that:
  - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c) the financial statements and notes for the financial year give a true and fair view
3. in the directors' opinion there are reasonable grounds to believe that the company 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 Board of Directors.



**Robert M Kennedy**  
DIRECTOR

Dated this 18th day of September 2009

# Independent Audit Report



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

### **Report on the Financial Report**

We have audited the accompanying financial report of Flinders Mines Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other 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 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 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLINDERS MINES LIMITED Cont**

### **Auditor's Responsibility Cont**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Independence**

In conducting our audit, we complied with applicable independence requirements of the Corporations Act 2001.

### **Auditor's opinion**

In our opinion:

- a the financial report of Flinders Mines Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the period ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



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

**Auditor's Opinion**

In our opinion the Remuneration Report of Flinders Mines Limited for the period ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON  
South Australian Partnership  
Chartered Accountants



SJ Gray  
Partner

Signed at Wayville on this 18<sup>th</sup> day of September 2009

# Corporate Governance Statement

The Board of Directors of Flinders Mines Limited is committed to improving and achieving good standards of corporate governance and has established corporate governance policies and procedures, where appropriate and practicable, consistent with the revised Corporate Governance Principles and Recommendations – 2nd Edition issued by the ASX Corporate Governance Council (“ASX Recommendations”).

The following statement sets out a summary of the Company’s corporate governance practices that were in place during the financial year and how those practices relate to the revised ASX Recommendations. The Company elected to undergo an early transition to the revised Principles and Recommendations and as such has reported against these for the financial year ending June 2008 and June 2009.

These recommendations are not intended to be prescriptions to be followed by all ASX listed companies, but rather guidelines designed to produce an effective, quality and integrity outcome. The Corporate Governance Council has recognised that a “one size fits all” approach to Corporate Governance is not required. Instead, it states aspirations of good practice for optimising corporate performance and accountability in the interests of shareholders and the broader economy. A company may consider that a recommendation is inappropriate to its particular circumstances and has flexibility not to adopt it and explain why.

In ensuring a good standard of ethical behaviour and accountability, the Board has included in its corporate governance policies those matters contained in the ASX Recommendations where applicable. However, the Board also recognises that full adoption of the above ASX Recommendations may not be practical nor provide the optimal result given the particular circumstances and structure of the Company. The Board is, nevertheless, committed to ensuring that appropriate Corporate Governance practices are in place for the proper direction and management of the Company. This statement outlines the main Corporate Governance practices of the Company disclosed under the ASX Recommendations, including those that comply with good practice and which unless otherwise disclosed, were in place during the whole of the financial year ended 30 June 2009.

## **Principle 1 – Lay solid foundations for management and oversight**

### **Recommendation 1.1 - Recommendation followed**

The Board is governed by the Corporations Act 2001, ASX Listing Rules and a formal constitution adopted by the company in 2006.

The role of the Board is to provide leadership and direction to management and to agree with management the aims, strategies and policies of the Company for the protection and enhancement of long-term shareholder value.

The Board takes responsibility for the overall Corporate Governance of the Company including its strategic direction, management goal setting and monitoring, internal control, risk management and financial reporting.

The Board has an established framework for the management of the entity including a system of internal control, a business risk management process and appropriate ethical standards. In fulfilling its responsibilities, the Board is supported by an Audit Committee to deal with internal control, ethical standards and financial reporting.

The Board appoints a Managing Director responsible for the day to day management of the Company including management of financial, physical and human resources, development and implementation of risk management, internal control and regulatory compliance policies and procedures, recommending strategic direction and planning for the operations of the business and the provision of relevant information to the Board.

The board has not adopted a formal statement of matters reserved to them or a formal board charter that details their functions and responsibilities nor a formal statement of the areas of authority delegated to senior executives.

### **Recommendation 1.2 - Recommendation followed**

The Board takes responsibility for monitoring the composition of the Board and reviewing the performance and compensation of the Company’s Executive Directors and senior management with the overall objective of motivating and appropriately rewarding performance.

The board considers the Company’s present circumstances and goals ensure maximum shareholder benefits from the attraction and retention of a high quality Board and senior management team. The Board on a regular basis reviews the performance of and remuneration for Executive Director’s and senior management including any equity participation by such Executive Directors and senior management. The Board evaluates the performance of the Managing Director and Company Secretary on a regular basis and encourages continuing professional development.

### **Recommendation 1.3 - Recommendation followed**

During the period the Board undertook an informal performance evaluation of the Managing Director, Company Secretary and senior management. The evaluation was in accordance with the Company’s process for evaluation of senior executives.

## **Principle 2 – Structure the board to add value**

### **Recommendation 2.1 - Recommendation followed**

The composition of the Board consists of three directors of whom two, including the Chairman, are Independent Directors.

The Audit Committee currently consists of two independent directors.

### **Recommendation 2.2 - Recommendation followed**

The Chairman, Mr Kennedy is an Independent Director

### **Recommendation 2.3 - Recommendation followed**

Mr Kennedy’s role as Chairman of the Board is separate from that of the Managing Director, Dr Wills who is responsible for the day to day management of the Company and is in compliance with the ASX Recommendation that these roles not be exercised by the same individual.

#### **Recommendation 2.4 - Recommendation not followed**

The Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing a nomination committee in line with ASX Recommendation 2.4 and establishing a formal charter as recommended by ASX Recommendation 2.4 cannot be justified by the perceived benefits of doing so. As such, the whole Board currently carries out this function. It is anticipated that a formal charter will be developed in the coming year, as the Company develops further.

#### **Recommendation 2.5 - Recommendation not followed**

The Board recognises that as a result of the Company's size and the stage of the entity's life as a publicly listed junior exploration company, the assessment of the Board's overall performance and its own succession plan is conducted on an ad hoc basis. Whilst this is at variance with the ASX Recommendation 2.5, the Directors consider that at the date of this report an appropriate and adequate process for the evaluation of Directors is in place. A more formal process of Board assessment will be considered in the future as the Company develops.

#### **Recommendation 2.6 - Recommendation followed**

The names of the directors of the Company and terms in office at the date of this Statement together with their skills, experience, expertise and financial interests in the Company are set out in the Directors' Report section of this report.

Messrs Kennedy and Vickery are considered to be independent.

The Company has no relationships with any of the independent directors which the company believes would compromise the independence of these directors.

All directors are entitled to take such legal advice as they require at any time and from time to time on any matter concerning or in relation to their rights, duties and obligations as directors in relation to the affairs of the Company at the expense of the Company.

The Company's constitution specifies the number of directors must be at least three and at most ten. The Board may at any time appoint a director to fill a casual vacancy. Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Managing Director) are subject to re-election at least every three years. The tenure for executive directors is linked to their holding of executive office.

As the Board does not have a nominations committee, the functions of this committee in its absence are dealt with by the Board as a whole.

An assessment of the Board's overall performance and its own succession plan is conducted on an ad hoc basis and was done so during the year by the Chairman.

### **Principle 3 – Companies should actively promote ethical and responsible decision making**

#### **Recommendation 3.1 - Recommendation not followed**

While the Company does not have a formal code of conduct, as the Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing and

managing a formal code of conduct cannot be justified, the Company requires all its directors and employees to abide by good standards of behaviour, business ethics and in accordance with the law. In discharging their duties, Directors of the Company are required to:

- act in good faith and in the best interests of the Company;
- exercise care and diligence that a reasonable person in that role would exercise;
- exercise their powers in good faith for a proper purpose and in the best interests of the Company;
- not improperly use their position or information obtained through their position to gain a personal advantage or for the advantage of another person to the detriment of the Company;
- disclose material personal interests and avoid actual or potential conflicts of interests;
- keep themselves informed of relevant Company matters;
- keep confidential the business of all directors meetings; and
- observe and support the Board's Corporate Governance practices and procedures.

Directors are also required to provide the Company with details of all securities registered in the director's name or an entity in which the director has a relevant interest within the meaning of section 9 of the Corporations Act 2001 and details of all contracts, other than contracts to which the Company is a party to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with Section 195 of the Corporations Act 2001, a director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

#### **Recommendation 3.2 - Recommendation followed**

Directors, officers and employees are not permitted to trade in securities of the Company at any time whilst in possession of price sensitive information not readily available to the market. Section 1043A of the Corporations Act 2001 also prohibits the acquisition and disposal of securities where a person possess information that is not generally available and which may reasonably be expected to have a material effect on the price of the securities if the information was generally available. A securities trading policy has been established and all employees and Directors are obliged to comply.

All directors have signed agreements with the Company which require them to provide the Company with details of all securities registered in the director's name or an entity in which the director has a relevant interest within the meaning of section 9 of the Corporations Act 2001 and details of all contracts, other than contracts to which the Company is a party to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with Section 195 of the Corporations Act 2001, a director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

#### **Recommendation 3.3 - Recommendation followed**

A summary of the Company's Trading Policy can be found at [www.flindersmines.com/governance](http://www.flindersmines.com/governance)

### **Principle 4 – Safeguard integrity in financial reporting**

#### **Recommendation 4.1 - Recommendation followed**

The Company was not a company required by ASX Listing Rule 12.7 to have an Audit Committee during the year although it is an ASX Recommendation. Notwithstanding the Listing Rule requirement, an Audit Committee has been established to oversee corporate governance over internal controls, ethical standards, financial reporting, and external accounting and compliance procedures.

The main responsibilities of the Audit and Corporate Governance Committee include;

- reviewing, assessing and making recommendations to the Board on the annual and half year financial reports released to the market by the Company;
- overseeing establishment, maintenance and reviewing the effectiveness of the Company's internal control and ensuring efficacy and efficiency of operations, reliability of financial reporting and compliance with applicable Accounting Standards and ASX Listing Rules;
- liaising with and reviewing reports of the external auditor; and
- reviewing performance and independence of the external auditor and where necessary making recommendations for appointment and removal of the Company's auditor.

#### **Recommendation 4.2 - Recommendation not followed**

The Audit Committee consists of two non executive, independent Board directors, Messrs Vickery and Kennedy, and is chaired by Mr Vickery.

The Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing an audit committee with at least three members in line with ASX Recommendation 4.2 cannot be justified by the perceived benefits of doing so. The existing composition of the Audit Committee is such that review and authorisation of the integrity of the Company's financial reporting and the independence of the external auditor is via the exercise of independent and informed judgement.

#### **Recommendation 4.3 - Recommendation not followed**

The Board believes that given the current size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing a formal audit committee charter in line with ASX Recommendation 4.3 cannot be justified by the perceived benefits of doing so, however it is anticipated that an audit committee charter will be established in the coming year as the Company develops further.

#### **Recommendation 4.4 - Recommendation followed**

Mr Kennedy is a qualified Chartered Accountant. Details of the Audit Committee member's qualifications and attendance at meetings are set out in the Directors' Report section of this report.

The Committee meets at least twice per annum and reports to the Board. The Managing Director, Company Secretary and external auditor may by invitation attend meetings at the discretion of the Committee.

### **Principle 5 – Make timely and balanced disclosure**

#### **Recommendation 5.1 and 5.2 - Recommendations not followed**

The Company operates under the continuous disclosure requirements of the ASX Listing Rules and ensures that all information which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to material information concerning the Company. The information is made publicly available on the Company's website following release to the ASX.

Due to the size of the Company and the stage of life of the entity as a publicly listed junior exploration company, the Board does not believe a formal policy for continuous disclosure is required. However, a summary describing how the Company will ensure its compliance with continuous disclosure requirements is posted on the Company's website, [www.flindersmines.com/governance](http://www.flindersmines.com/governance).

### **Principle 6 – Respect the rights of shareholders**

#### **Recommendation 6.1 and 6.2 - Recommendations not followed**

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. In accordance with the ASX Recommendations, information is communicated to shareholders as follows:

- the annual financial report which includes relevant information about the operations of the Company during the year, changes in the state of affairs of the entity and details of future developments, in addition to the other disclosures required by the Corporations Act 2001;
- the half yearly financial report lodged with the Australian Stock Exchange and Australian Securities and Investments Commission and sent to all shareholders who request it;
- notifications relating to any proposed major changes in the Company which may impact on share ownership rights that are submitted to a vote of shareholders;
- notices of all meetings of shareholders;
- publicly released documents including full text of notices of meetings and explanatory material made available on the Company's web-site; and
- disclosure of the Company's Corporate Governance practices and communications strategy on the entity's website.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor of the Company is also invited to the Annual General

Meeting of shareholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report. Pursuant to section 249K of the Corporations Act 2001 the external auditor is provided with a copy of the notice of meeting and related communications received by shareholders.

Due to the size of the Company and the stage of life of the entity as a publicly listed junior exploration company, the Board does not believe a formal policy for shareholder communication is required. However, a summary describing how the Company will communicate with its shareholders is posted on the Company's website, [www.flindersmines.com/governance](http://www.flindersmines.com/governance).

### **Principle 7 – Recognise and manage risk**

#### **Recommendation 7.1, 7.2 and 7.4 - Recommendations not followed**

The Board recognises that there are inherent risks associated with the Company's operations including mineral exploration and mining, environmental, title and native title, legal and other operational risks. The Board endeavours to mitigate such risks by continually reviewing the activities of the Company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed. No formal report in relation to the Company's management of its material business risk is presented to the Board.

Due to the size of the Company and the stage of life of the entity as a publicly listed junior exploration company, and the inherent risks associated with the industry it operates in, the Board does not believe formal policies for oversight and management of risk is required nor a mechanism for formal review be established. A summary describing how the Company manages risk by procedures established at Board and executive level can be found posted on the Company's web-site, [www.flindersmines.com/governance](http://www.flindersmines.com/governance).

#### **Recommendation 7.3 - Recommendation followed**

In accordance with ASX Recommendation 7.3 the Chief Executive Officer and Chief Financial Officer have provided assurances that the written declarations under s295A of the Corporations Act are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. Both the Chief Executive Officer and Chief Financial Officer provided said assurances at the time the s295A declarations were provided to the Board.

### **Principle 8 – Remunerate fairly and responsibly**

#### **Recommendation 8.1 - Recommendation not followed**

The Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior exploration company that the cost of establishing a formal remuneration committee in line with ASX Recommendation 8.1 cannot be justified by the perceived benefits of doing so.

The Board takes responsibility for monitoring the composition of the Board and reviewing the compensation of the Company's Executive Directors and senior management with the overall objective of motivating and appropriately rewarding performance.

#### **Recommendation 8.2 and 8.3 - Recommendations followed**

In accordance with ASX Recommendation 8.2 the Company's remuneration practices are set out as follows.

The Company's Constitution specifies that the total amount of remuneration of non-executive directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of non-executive directors has been set at \$300,000 per annum. Directors may apportion any amount up to this maximum amount amongst the non executive directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as directors.

Non-executive director remuneration is by way of fees and statutory superannuation contributions. Non-executive directors do not participate in schemes designed for remuneration of executives nor do they receive options or bonus payments and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The remuneration of the Managing Director is determined by the Board as part of the terms and conditions of his employment which are subject to review from time to time. The remuneration of employees is determined by the Managing Director subject to the approval of the Board.

The Company's remuneration structure is based on a number of factors including the particular experience and performance of the individual in meeting key objectives of the Company. The Board is responsible for assessing relevant employment market conditions and achieving the overall, long term objective of maximising shareholder benefits, through the retention of high quality personnel.

The Company does not presently emphasise payment for results through the provision of cash bonus schemes or other incentive payments based on key performance indicators of the Company given the nature of the Company's business as a recently listed mineral exploration entity and the current status of its activities. However the Board may approve the payment of cash bonuses from time to time in order to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

The Company also has an Employee Share Option Plan approved by shareholders that enables the Board to offer eligible employees options to ordinary fully paid shares in the Company. Under the terms of the Plan, options to ordinary fully paid shares may be offered to the Company's eligible employees at no cost in accordance with the terms and conditions of the Plan. The objective of the Plan is to align the interests of employees and shareholders by providing employees of the Company with the opportunity to participate in the equity of the Company as an incentive to achieve greater success and profitability for the Company and to maximise the long term performance of the Company. The Non-executive Directors are not eligible to participate in the Plan.

The employment conditions of the Managing Director are formalised in a contract of employment. The Managing Director's contract may be terminated at any time by mutual agreement or without notice in serious instances of misconduct.

Further details of director's remuneration, superannuation and retirement payments are set out in the Remuneration Report section of the Directors' Report.

The Company's Corporate Governance Policies can be found at [www.flindersmines.com/governance](http://www.flindersmines.com/governance)