

FLINDERS MINES LIMITED

ACN 091 118 044

FINANCIAL REPORT
For the half-year ended
31 December 2008

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DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

Your directors submit the financial report of the entity for the half-year ended 31 December 2008.

Directors

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

- Mr Robert Michael Kennedy
- Dr Kevin John Anson Wills
- Mr Ewan John Vickery
- Mr Gregory Morning May (Alternate for E J Vickery)
- Mr Richard Walter Cumming Willson – resigned 7 October 2008 (Alternate for K J A Wills)
- Mr Kevin James Lines - appointed 7 October 2008 (Alternate for K J A Wills)

Review of Operations

In the half year being reported Flinders Mines Limited (FMS) focused on its iron ore exploration programme at the Hamersley project in the Pilbara region of Western Australia. This half year saw the most active and costly period of exploration in the Company's history with an expenditure of approximately \$8.1 million. The outcome of this work is that a large deposit of iron ore has been outlined, generally in excess of the exploration target expectations. Work during the first quarter of 2009 will focus on a JORC compliant estimation of the mineral resources identified.

The half year saw the establishment of a fully serviced 20-person camp and the commencement of a major drilling program. A total of 301 drill holes for a combined 15,038 metres were drilled on exploration targets in valleys E, D, C and B in that order. Work on target valley A, and FMS's other tenement E47/1560, was delayed for logistical and access reasons and is expected to be drilled in the second quarter of 2009.

Drilling results exceeded expectations, with mineralisation present over larger areas and of greater thicknesses that had been predicted. Apart from the anticipated channel iron deposit (CID) mineralisation, a significant area of bedded iron deposit (BID) mineralisation has been discovered. This deposit is to date best developed in Area D, is of direct shipping grade and has not been included in previous exploration target estimates.

The current combined Exploration Target on E47/882 and E47/1560 is between 692 and 779 million tonnes of iron ore averaging 50 to 65% iron. This exploration target is partly conceptual in nature and further resource estimation work on results is necessary before any Identified Mineral Resource can be reported. FMS is planning to release the first Inferred Resource for the project in late March 2009. During the remainder of 2009, FMS plans to carry out a scoping study and if this is positive, a pre-feasibility study.

In addition to the iron ore activities, FMS has continued with its Diamond and Phosphate exploration, mainly in South Australia where a number of targets are being evaluated.

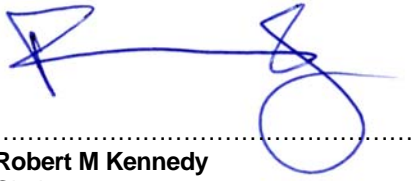
FLINDERS MINES LIMITED
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DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

Auditor's Independence Declaration

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

Signed in accordance with a resolution of the directors.



.....
Robert M Kennedy
Chairman

Signed at Adelaide this 12th day of March 2009

Information in the Half-Year Financial Report that relates to exploration results or mineral resources is based on information compiled by Dr Kevin Wills, an employee of Flinders Mines Limited, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Dr Wills has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr Wills consents to the inclusion in the report of the statements based on his information in the form and context in which it appears.

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Flinders Mines Limited for the half-year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Wayville on this 12 day of March 2009

FLINDERS MINES LIMITED
ACN 091 118 044

INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

| | 31 December 2008 | 31 December 2007 |
|--|-----------------------------|-----------------------------|
| | \$ | \$ |
| Interest Revenue | 542,838 | 146,549 |
| Marketing expenses | (50,395) | (86,080) |
| Administrative expense | (1,084,018) | (437,096) |
| Finance costs | (2,578) | (597) |
| Exploration expenditure written off | <u>(165,216)</u> | <u>(235,322)</u> |
| Profit / (loss) before income tax | (759,369) | (612,546) |
| Income tax expense | <u>(68,645)</u> | <u>(54,548)</u> |
| Profit / (loss) for the period attributable to shareholders of the company | <u><u>(828,014)</u></u> | <u><u>(667,094)</u></u> |
| Basic earnings / (loss) per share (cents) | (0.071) | (0.08) |
| Diluted earnings / (loss) per share (cents) | (0.071) | (0.08) |

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

FLINDERS MINES LIMITED
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BALANCE SHEET
AS AT 31 DECEMBER 2008

| | 31 December 2008 | 30 June 2008 |
|---|-----------------------------|-------------------------|
| | \$ | \$ |
| CURRENT ASSETS | | |
| Cash & cash equivalents | 14,876,827 | 13,925,018 |
| Trade & other receivables | 455,323 | 493,671 |
| Other current assets | 27,000 | 27,000 |
| TOTAL CURRENT ASSETS | <u>15,359,150</u> | <u>14,445,689</u> |
| NON-CURRENT ASSETS | | |
| Property, plant & equipment | 730,734 | 551,647 |
| Investments accounted for using the equity method | 1 | 1 |
| Exploration & evaluation expenditure | 20,479,469 | 12,337,383 |
| Financial assets | 1,001,100 | 2,372,500 |
| TOTAL NON-CURRENT ASSETS | <u>22,211,304</u> | <u>15,261,531</u> |
| TOTAL ASSETS | <u>37,570,454</u> | <u>29,707,220</u> |
| CURRENT LIABILITIES | | |
| Trade & other payables | 794,485 | 366,476 |
| Short-term provisions | 59,817 | 19,613 |
| TOTAL CURRENT LIABILITIES | <u>854,302</u> | <u>386,089</u> |
| TOTAL LIABILITIES | <u>854,302</u> | <u>386,089</u> |
| NET ASSETS | <u>36,716,152</u> | <u>29,321,131</u> |
| EQUITY | | |
| Issued capital | 42,925,348 | 33,068,413 |
| Reserves | (1,416,050) | 217,850 |
| Retained earnings | (4,793,146) | (3,965,132) |
| TOTAL EQUITY | <u>36,716,152</u> | <u>29,321,131</u> |

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

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

| | Issued Capital \$ | Asset Revaluation Reserve \$ | Share Option Reserve \$ | Retained Earnings \$ | Total \$ |
|------------------------------------|-------------------------|---------------------------------------|----------------------------------|----------------------------|-------------|
| Balance at 1 July 2007 | 15,488,349 | 1,198,909 | 4,025 | (2,747,703) | 13,943,580 |
| Loss for the period | - | - | - | (667,094) | (667,094) |
| Shares issued during the period | 4,422,127 | - | - | - | 4,422,127 |
| Revaluation of investments | - | (996,409) | - | - | (996,409) |
| Balance at 31 December 2007 | 19,910,476 | 202,500 | 4,025 | (3,414,797) | 16,702,204 |
| Balance at 1 July 2008 | 33,068,413 | 122,500 | 95,350 | (3,965,132) | 29,321,131 |
| Loss for the period | - | - | - | (828,014) | (828,014) |
| Shares issued during the period | 9,856,935 | - | - | - | 9,856,935 |
| Revaluation of investments | - | (1,633,900) | - | - | (1,633,900) |
| Balance at 31 December 2008 | 42,925,348 | (1,511,400) | 95,350 | (4,793,146) | 36,716,152 |

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CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

| | 31 December 2008 | 31 December 2007 |
|--|-----------------------------|-----------------------------|
| | \$ | \$ |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Interest received | 417,490 | 108,555 |
| Payments to suppliers and employees | (668,376) | (469,498) |
| | <hr/> | <hr/> |
| Net cash provided by (used in) operating activities | (250,886) | (360,943) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (229,653) | (205,500) |
| Payment for exploration activities | (8,162,087) | (808,273) |
| Increase in loan to related party/investment in subs | (262,500) | (10,000) |
| | <hr/> | <hr/> |
| Net cash provided by (used in) investing activities | (8,654,240) | (1,023,773) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | 10,017,108 | 4,548,857 |
| Capital raising costs | (160,173) | (181,278) |
| | <hr/> | <hr/> |
| Net cash provided by (used in) financing activities | 9,856,935 | 4,367,579 |
| Net decrease in cash held | 951,809 | 2,982,863 |
| Cash at beginning of period | 13,925,018 | 1,735,659 |
| | <hr/> | <hr/> |
| Cash at end of financial period | 14,876,827 | 4,718,522 |
| | <hr/> <hr/> | <hr/> <hr/> |

The cash flow statement is to be read in conjunction with the notes to the financial report.

NOTES TO THE FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 1 - BASIS OF PREPARATION

Reporting entity

Flinders Diamonds Limited (the "Company") is a company domiciled in Australia. The financial report of the Company is as at and for the half year ended 31 December 2008.

The annual financial report of the entity as at and for the year ended 30 June 2008 is available upon request from the Company's registered office at 62 Beulah Road, Norwood SA or at www.flindersmines.com.

Statement of compliance

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Flinders Mines Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies applied by the entity in this half-year report are consistent with those in the June 2008 financial report.

The half-year report does not include full disclosures of the type normally included in an annual financial report

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

NOTE 2 - ISSUED CAPITAL

| | 31 December 2008 | 30 June 2008 |
|--|-----------------------------|-------------------------|
| 1,208,064,439 (30 June 2008: 1,109,678,754) fully paid ordinary shares | <u>\$42,925,348</u> | <u>\$33,068,413</u> |
| Ordinary Shares | | |
| At the beginning of the period | 1,109,678,754 | 595,540,919 |
| Shares issued during the year | | |
| - 2 August 2007 | | 291,978,993 |
| - 31 August 2007 | | 56,333,333 |
| - 10 September 2007 | | 29,036,170 |
| - 28 November 2007 | | 800,000 |
| - 11 December 2007 | | 245,000 |
| - 1 February 2008 | | 125,000 |
| - 6 February 2008 | | 10,079 |
| - 6 March 2008 | | 110,000,000 |
| - 6 March 2008 | | 22,260 |
| - 21 April 2008 | | 7,810,000 |
| - 12 May 2008 | | 350,000 |
| - 29 May 2008 | | 120,000 |
| - 2 June 2008 | | 250,000 |
| - 2 June 2008 | | 2,250,000 |
| - 5 June 2008 | | 5,754,500 |

NOTES TO THE FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 2 - ISSUED CAPITAL (continued)

| | 31 December 2008 | 30 June 2008 |
|---------------------|-----------------------------|-------------------------|
| - 10 June 2008 | | 4,560,000 |
| - 17 June 2008 | | 4,439,500 |
| - 24 June 2008 | | 53,000 |
| - 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 | 4,411,764 | |
| At reporting date | <u>1,208,064,439</u> | <u>1,109,678,754</u> |

- On 2 July 2008 197,087 shares were issued at \$0.10 as a result of the exercise of options.
- On 9 July 2008 1,101,000 shares were issued at \$0.10 as a result of the exercise of options.
- On 17 July 2008 27,000 shares were issued at \$0.10 as a result of the exercise of options.
- On 18 July 2008 150,000 shares were issued at \$0.10 as a result of the exercise of options.
- On 1 August 2008 50,000 shares were issued at \$0.084 as a result of the exercise of options.
- On 14 August 2008 2,016,500 shares were issued at \$0.10 as a result of the exercise of options.
- On 27 August 2008 41,031 shares were issued at \$0.10 as a result of the exercise of options.
- On 8 September 2008 1,848,566 shares were issued at \$0.10 as a result of the exercise of options.
- On 15 September 2008 3,524,825 shares were issued at \$0.10 as a result of the exercise of options.
- On 23 September 2008 2,876,257 shares were issued at \$0.10 as a result of the exercise of options.
- On 29 September 2008 13,046,425 shares were issued at \$0.10 as a result of the exercise of options.
- On 7 October 2008 69,095,230 shares were issued at \$0.10 as a result of the exercise of options.
- On 14 October 2008 4,411,764 shares were issued at \$0.17 to the vendors of WA tenements acquired by Flinders.

Ordinary shares participate in dividends and the proceeds on winding up of the entity 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.

NOTE 3 - CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last reporting date.

FLINDERS MINES LIMITED
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NOTES TO THE FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 4 - SEGMENT REPORTING

The Company operates in one business segment, being mining exploration, within Australia and as such has no reportable business segments.

NOTE 5 - EVENTS SUBSEQUENT TO REPORTING DATE

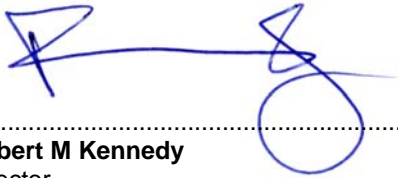
There has not arisen in the interval between 31 December 2008 and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future years.

DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

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

1. The financial statements and notes, as set out on pages 5 to 11, are in accordance with the Corporations Act 2001 including:
 - (a) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) Giving a true and fair view of the company's financial position as at 31 December 2008 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



.....

Robert M Kennedy
Director

Signed at Adelaide this 12th day of March 2009



Grant Thornton

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

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Flinders Mines Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, and other selected explanatory notes.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards including the Australian Accounting Interpretations and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410: Review of an Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Flinders Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



Grant Thornton

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

Auditor's responsibility Cont

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

Independence

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

Conclusion

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

- a giving a true and fair view of the company's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- b complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S.J. Gray
Partner

Signed at Wayville on this 12 day of March 2009