



Flinders Mines Limited

ABN 46 091 118 044

Financial report for the year ended 30 June 2010

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Financial report - 30 June 2010

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These financial statements cover Flinders Mines Limited as an individual entity. The financial statements are presented in the Australian currency.

Flinders Mines Limited is a company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Flinders Mines Limited
62 Beulah Road
Norwood SA 5067

Registered postal address is:

Flinders Mines Limited
PO Box 3126
Norwood SA 5067

The financial statements were authorised for issue by the directors on 29 September 2010. The directors have the power to amend and reissue the financial statements.

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

Directors report

Your directors present their report on the Company for the financial year ended 30 June 2010.

Directors

The following persons were directors of Flinders Mines Limited during the whole of the financial year and up to the date of this report:

Robert Michael Kennedy

John David Cooper (Non-executive Director, since 13 September 2010)

Nicholas John Smart (Non-executive Director since 1 September 2010, Alternate for R M Kennedy since 7 December 2009)

Ewan John Vickery

Gregory Mornington May (Alternate for E J Vickery)

Kevin John Anson Wills (retired 31 August 2010)

Andrew Joseph Andrejewskis (Alternate for R M Kennedy, ceased 25 November 2009)

Nicholas John Corlis (Alternate for K J A Wills, ceased 31 August 2010)

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

Principal activities

The principle activity of the Company during the financial year was mineral exploration and development.

Operating results and financial position

The net result of operations for the financial year was a loss of \$8,728,915 (2009: \$3,935,308).

The net assets of the Company have increased by \$41,770,966 during the financial year from \$46,966,100 at 30 June 2009 to \$88,737,066 to 30 June 2010. This increase is attributable to proceeds received from share issues, raising \$52,811,850.

Dividends - Flinders Mines Limited

There were no dividends declared or paid during the year.

Review of operations

The 2010 financial year has seen Flinders Mines advance significantly from this time last year. Key appointments to the owner's team have now been made and the pre-feasibility study for the Pilbara project is on track for completion in Quarter 4 of 2010 with many parts of the study complete or nearing completion.

Worley Parsons were appointed as the project management contractor to conduct the Pilbara Iron Ore Project pre-feasibility study along with a small number of other consultants providing specialist support to Worley Parsons and Flinders Mines. The approvals pathway is established and a peer review of the approvals schedule is planned in Q3 2010.

Exploration drilling continued on the project to increase the tonnage of higher quality resource and improve the confidence in the deposits by converting some of the Inferred Resource across to an Indicated Resource. This was achieved by two campaigns of reverse circulation drilling to extend the existing resource and carry out more detailed drilling within areas that had already been drilled to Inferred Resource status. The exploration involved the drilling of 970 holes for about 47,000 metres.

Work has also been carried out on the Canegrass Magnetite project with a series of samples taken for geometallurgical test work to determine if there is a saleable product at the project.

At the November 2009 Annual General Meeting it was announced that the Company planned to divest itself of the non iron ore assets, including diamonds and phosphate. To achieve this, the company has entered into a joint venture agreement with Flinders Exploration Limited, which intends to fund its operations through a proposed initial public offer (IPO). Since that time, the company's focus has been on iron and in the process of preparing for the IPO, little work has been carried out in diamonds and phosphate. However, significant microdiamond results have been obtained from the Eureka kimberlites with macrodiamonds recovered from small samples providing additional encouragement. In addition a micro diamond was discovered in the Pilbara and this gives encouragement for diamond exploration in this area

Events subsequent to balance date

Dr Kevin John Anson Wills retired as Managing Director of Flinders Mines Limited with effect from 31 August 2010, having been Managing Director since incorporation 11 January 2000. Mr Gary David Sutherland has been appointed Acting CEO of Flinders Mines Limited.

Mr Nicholas John Smart has been appointed a Non-executive Director, effective from 1 September 2010. Mr Smart is also serving as Alternate Director for Mr Robert Michael Kennedy.

Mr John David Cooper has been appointed a Non-executive Director, effective from 13 September 2010.

Apart from the above, 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 off-take agreements.

The main focus of the company will be on completion of the Pre-feasibility Study in Quarter 4 of 2010. If the Prefeasibility Study is positive this will then lead into a Bankable Feasibility Study (BFS) aimed for completion in late 2011. This will require collection of additional information, based on the outcomes of the Pre-feasibility Study, and ongoing study work from Worley Parsons and associated consultants. Exploration drilling will continue to search for higher quality mineralisation, specifically targeting the Bedded Iron Deposit mineralisation. Drilling will also be carried out to bring the resource confidence to BFS level.

The Board has approved the Canegrass Magnetite project proceeding to a Scoping Study. This is now under way and will include preparation of geometallurgical samples from previous reverse circulation samples, commencing Phase One geometallurgical test work, development of a process flow sheet and commencement of initial Inferred Resource drilling. The scoping study is on schedule for completion in Q1 of calendar year 2011.

Flinders Mines anticipates doing very little work on diamonds and phosphate. Flinders Mines shareholder approval for the Joint Venture Agreement between FMS and Flinders Exploration Limited (FEX) will be sought and the FEX IPO process will continue in the Quarter 4 of 2010.

Environmental regulation

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.

Information on directors

Robert Michael Kennedy ASAIT, Grad Dip (Systems Analysis), FCA, ACIS, Life Member AIM, FAICD.

(Non-Executive Chairman)

Experience and expertise

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.

My 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. My Kennedy leads the development of strategies for the development and future growth of the Company.

Mr Kennedy is also a Director of ASX listed companies Beach Energy Limited (Director since 1991, Chairman since 1995), ERO Mining Ltd (since 2006), Marmota Energy Limited (since 2007), Maximus Resources Limited (since 2004), Monax Mining Limited (since 2004), Ramelius Resources Limited (since 2004) and Somerton Energy Limited (since 2010).

Special responsibilities:

Chairman of the Board.

Chairman of the Nomination and Remuneration Committee.

Chairman of the Corporate Development Committee.

Member of the Audit Committee.

Interests in shares and options:

31,180,590 ordinary shares in Flinders Mines Limited.

John David Cooper BSc (Building), FIE Aust, FAICD. *(Non-executive Director)*.

Experience and expertise

A director since 13 September 2010, Mr Cooper is one of Australia's foremost major civil engineering, mining, energy and property constructors. In a more than 35 year career, Mr Cooper has held a range of very senior executive management and Board roles associated with development of major capital works throughout Australia and overseas.

Mr Cooper spent 21 years with Concrete Constructions, then headed up design engineering and project management organisation CMPS&F, followed by a period in a general management role with the Sydney Olympic Organising Committee. In 2006 he was appointed by South African conglomerate Murray and Roberts as its representative and Deputy Chairman of Clough Engineering.

Mr Cooper is also a non-executive Director of ASX-listed company Southern Cross Electrical Engineering Limited (since 2007).

Nicholas John Smart. *Non-Executive Director*

Experience and expertise

An Alternate Director since 7 December 2009 and appointed as a non-executive Director on 1 September 2010. Mr Smart has held positions as a General Manager in France and Australia in the wool, textile, leather and meat industries. Responsibilities included human resources, factory operations, currency movements and commodity trading. He was a full Associate Member of the Sydney Futures Exchange, then became Managing Director of D&D-Tolhurst Ltd (Sharebrokers) as a client advisor and in the corporate area including capital raising. He has been involved in start up companies in technology development such as laser shearing of sheep skins, commercialisation of the Synroc process for safe storage of high level nuclear waste and controlled temperature and atmosphere transport systems. Mr Smart currently consults to various public companies and is a director of GTL Energy Limited.

Ewan John Vickery L.L.B. *Non-Executive Director.*

Experience and expertise

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 ERO Mining 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).

Special responsibilities:

Chairman of the Audit Committee.

Member of Nominations and Remuneration Committee.

Information on directors (continued)

Interests in shares and options:

4,571,428 ordinary shares in Flinders Mines Limited.

Gregory Mornington May L.L.B. *Alternate Director for E J Vickery (Non-Executive).*

Experience and expertise

An Alternate 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.

Interests in shares and options:

620,000 ordinary shares in Flinders Mines Limited.

Kevin John Anson Wills BSc, PhD, ARSM, FAusIMM. *formerly Managing Director.*

Experience and expertise

Dr Wills is a geologist with 36 years experience in multi commodity mineral exploration including 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 Murchison Region of Western Australia. 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, later on, was instrumental in the Challenger gold discovery.

Dr Wills was Managing Director of Flinders Mines Limited which has recently discovered a 658 million tonne iron ore deposit in the Pilbara Region of Western Australia which is currently the subject of a pre-feasibility study. He is an Associate of the Royal School of Mines, past chairman of the Adelaide Branch and a Fellow of the Australian Institute of Mining and Metallurgy and has recently joined the executive committee of the Western Australian Chamber of Minerals and Energy.

Dr Wills is also a non-executive Director of Flinders Exploration Limited.

Interests in shares and options:

11,000,000 ordinary shares in Flinders Mines Limited.

Andrew Joseph Andrejewskis BSc, Dip B Admin, FAIM, FAusIMM (CP Man). *Alternate Director for R M Kennedy*

Experience and expertise

An Alternate Director from 12 March 2009 to 25 November 2009. Mr Andrejewskis has more than 44 years experience in the resources industry and in government. He 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 was previously Managing Director of SAPEX Limited and brings a strong range of experience in areas of management, government, technical, commercial and administration.

Mr Andrejewskis is a Fellow of the Australian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Management and is currently Managing Director of GB Energy Limited.

Nicholas John Corlis BSc (Hons), MSc, MAIG, MAAG. *Alternate Director for K J A Wills.*

Experience and expertise

An Alternate Director since 12 March 2009. Mr Corlis has over 15 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.

Interests in shares and options:

495,000 options over ordinary shares in Flinders Mines Limited.

Information on directors (continued)

Company Secretary

David Wayne Godfrey BCom (Fin), GradDipAcc, ASA, FFin, CFTP (Snr), MAICD.

Experience and expertise

Mr Godfrey has more than 25 years experience in the resources and finance industries and is a member of Australian Society of CPAs, Chartered Secretaries Australia, Australian Institute of Company Directors and a Fellow of the Financial Services Institute. 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 the Chief Financial Officer since 11 November 2008.

Interests in shares and options:

168,769 ordinary shares in Flinders Mines Limited.

Meetings of directors

During the financial year, 20 meetings of directors and 3 meetings of Alternate Directors were held. Attendances by each director during the year were as follows:

	Full meetings of directors		Audit committee meetings		Corporate development committee		Nomination and remuneration committee	
	A	B	A	B	A	B	A	B
Robert Michael Kennedy	20	20	2	2	5	5	1	1
John David Cooper	-	-	-	-	-	-	-	-
Nicholas John Smart	3	3	-	-	-	-	-	-
Ewan John Vickery	20	20	2	2	-	-	1	1
Gregory Mornington May	-	-	-	-	-	-	-	-
Kevin John Anson Wills	20	20	-	-	5	5	-	-
Andrew Joseph Andrejewskis	-	-	-	-	-	-	-	-
Nicholas John Corlis	3	3	-	-	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Indemnification and insurance of officers

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.

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.

(continued)

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 2010.

Remuneration report - audited

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

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 \$750,000 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 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 were 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 three 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:

- Mr R M Kennedy - Chairman, Non-executive
- Mr N J Smart - Director, Non-executive (since 1 September 2010) (Alternate Director for R M Kennedy, since 7 December 2009)
- Mr E J Vickery - Director, non-executive
- Mr G M May - Alternate Director
- Dr K J A Wills - Managing Director (retired 31 August 2010)
- Mr A J Andrejewskis - Alternate Director (ceased 25 November 2009)
- Mr N J Corlis - Alternate Director (ceased 31 August 2010)

Remuneration report - audited (continued)

B Details of remuneration (continued)

Amounts of remuneration (continued)

- Mr D W Godfrey - Chief Financial Officer & Company Secretary
- Mr G D Sutherland - General Manager Projects

Key management personnel and other executives of the Company

2010

Name	Short-term employee benefits		Post-employment benefits	Share-based payments	Total
	Directors fees \$	Salary \$	Super-annuation* \$	Options \$	
R M Kennedy	123,899	-	11,151	-	135,050
N J Smart	-	-	-	-	-
E J Vickery*	66,284	-	3,716	-	70,000
G M May	5,000	-	-	-	5,000
K J A Wills	-	401,376	36,124	-	437,500
A J Andrejewskis	5,000	-	-	-	5,000
N J Corlis	-	222,936	20,064	-	243,000
D W Godfrey**	-	178,899	16,101	-	195,000
G D Sutherland	-	286,957	25,023	14,327	326,307
Total key management personnel compensation	200,183	1,090,168	112,179	14,327	1,416,857

* For part of the year, Director fees for Mr Vickery were 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.

Key management personnel and other executives of the Company

2009

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

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 \$550,000 per annum inclusive of superannuation guarantee contributions to be reviewed periodically and with termination on three month's notice by either party. Messrs Kennedy, Vickery, Smart and Cooper are engaged as directors without formal employment agreements.

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 780,000 options with a fair value of \$63,270 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.

Shares issued on exercise of remuneration options

Remuneration report - audited (continued)

D Share-based compensator (continued)

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

Options granted as remuneration

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

Directors interests in shares and options

Directors' relevant interests in shares and options of the Company are disclosed in Note 22 to the accounts.

Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of Flinders Mines Limited granted during or since the end of the financial year to the key management personnel of the company as part of their remuneration were as follows:

- Gary David Sutherland, General Manager Projects - 300,000 @ \$0.055 expiring 26 August 2014

Shares under option

Unissued ordinary shares of Flinders Mines Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
10 April 2007	20 March 2012	\$0.017	400,000
6 March 2008	5 March 2013	\$0.084	462,500
4 February 2009	3 February 2014	\$0.045	1,449,999
26 August 2009	26 August 2014	\$0.055	480,000
			2,792,499

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 10.

Dated at Adelaide this 29th day of September 2010 and signed in accordance with a resolution of the Directors.

Robert M Kennedy
Director

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67 Greenhill Rd
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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 2010, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Adelaide, 29 September 2010

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 government 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 years ending June 2008, June 2009 and June 2010.

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 2010.

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 revised and approved by members of the the Company in 2009.

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/Chief Executive Officer 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 adopted a formal board charter that details its functions and responsibilities and a formal statement of the areas of authority delegated to senior executives.

Recommendation 1.2 - Recommendation followed

The Board has established a Nomination and Remuneration Committee, which 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/CEO 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/CEO, 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 four directors all of whom, 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/CEO 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 followed

A Nominations and Remuneration Committee has been established during the year, consisting of the following non-executive Directors:

- R M Kennedy (Chair)
- E J Vickery

A formal committee charter has been adopted, that details the functions and responsibilities of the committee.

The main responsibilities of the committee are to:

- conduct an annual review of the membership of the board having regard to present and future needs of the company and to make recommendations on board composition and appointments
- conduct an annual review of and conclude on the independence of each director
- propose candidates for board vacancies
- oversee the annual performance assessment program
- oversee board succession including the succession of the chair
- assess the effectiveness of the induction process

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.

All current Directors 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 seven. 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.

An assessment of the Board's overall performance and its own succession plan is conducted on an ad hoc basis, and will be conducted in future by the Nomination and Remuneration Committee.

Principle 2: Structure the board to add value (continued)

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1 - Recommendation followed

The Company has adopted a formal code of conduct which 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 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

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1 - Recommendation followed

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 followed

A formal Audit Committee Charter has been adopted, that details the functions and responsibilities of the Committee.

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/CEO, Company Secretary and external auditor may by invitation attend meetings at the discretion of the Committee.

Principles 5: Make timely and balanced disclosures

Recommendation 5.1& 5.2 – Recommendations followed

The Company has adopted a Continuous Disclosure Policy and 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.

Principle 6: Respect the rights of shareholders

Recommendation 6.1& 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 Securities 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 web-site

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 web-site, www.flindersmines.com/governance.

Principle 7: Recognise and manage risk

Recommendation 7.1, 7.2 & 7.4 - Recommendations followed

A Risk Committee has been established during the year consisting of the following non-executive Directors and senior executives:

- Mr E J Vickery (Chair)
- Managing Director/CEO
- Manager OHSE & Risk

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. Design and development of a risk management and internal control system is underway and formal reports in relation to the Company's management of its material business risk will be presented to the Board.

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 followed

A Nominations and Remuneration Committee has been established during the year, consisting of the following non-executive directors:

- R M Kennedy (Chair)
- E J Vickery

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report.

The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading "Remuneration report".

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.2 & 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 \$750,000 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/CEO 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/CEO 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

Flinders Mines Limited
Statement of comprehensive income
For the year ended 30 June 2010

		2010 \$	2009 \$
Revenue from continuing operations	4	2,340,833	791,898
Loss on disposal of assets		-	(15,374)
Marketing expense	5	(637,885)	(255,036)
Administrative expense	5	(2,630,978)	(1,961,830)
Finance costs		(8,295)	(4,899)
Exploration expenditure written off	5	(6,879,125)	(357,783)
Impairment of financial assets		-	(2,118,500)
(Loss) before income tax		<u>(7,815,450)</u>	<u>(3,921,524)</u>
Income tax expense	6	<u>(913,465)</u>	<u>(13,784)</u>
(Loss) for the year	21(b)	<u>(8,728,915)</u>	<u>(3,935,308)</u>
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets (net of tax)	21(a)	<u>(126,895)</u>	<u>(122,500)</u>
Other comprehensive income for the year, net of tax		<u>(126,895)</u>	<u>(122,500)</u>
Total comprehensive income for the year		<u>(8,855,810)</u>	<u>(4,057,808)</u>
(Loss) is attributable to:			
Owners of Flinders Mines Limited		<u>(8,728,915)</u>	<u>(3,935,308)</u>
Total comprehensive income for the year is attributable to:			
Owners of Flinders Mines Limited		<u>(8,855,810)</u>	<u>(4,057,808)</u>
		<u>(8,855,810)</u>	<u>(4,057,808)</u>
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the parent entity:			
Basic earnings per share	28	(0.5244)	(0.3290)
Diluted earnings per share	28	(0.5244)	(0.3290)

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

Flinders Mines Limited
Statement of financial position
As at 30 June 2010

	Notes	2010 \$	2009 \$
ASSETS			
Current assets			
Cash and cash equivalents	7	54,807,269	20,522,605
Trade and other receivables	8	<u>2,261,253</u>	<u>1,024,792</u>
Total current assets		<u>57,068,522</u>	<u>21,547,397</u>
Non-current assets			
Investments accounted for using the equity method	9	1	1
Available-for-sale financial assets	13	273,972	394,000
Property, plant and equipment	14	1,630,287	889,595
Exploration and evaluation	15	32,102,683	24,937,304
Other non-current assets	16	<u>27,000</u>	<u>27,000</u>
Total non-current assets		<u>34,033,943</u>	<u>26,247,900</u>
Total assets		<u>91,102,465</u>	<u>47,795,297</u>
LIABILITIES			
Current liabilities			
Trade and other payables	17	2,201,946	753,895
Provisions	18	<u>135,495</u>	<u>75,302</u>
Total current liabilities		<u>2,337,441</u>	<u>829,197</u>
Non-current liabilities			
Provisions	19	<u>27,958</u>	-
Total non-current liabilities		<u>27,958</u>	-
Total liabilities		<u>2,365,399</u>	<u>829,197</u>
Net assets		<u>88,737,066</u>	<u>46,966,100</u>
EQUITY			
Contributed equity	20	105,227,282	54,663,777
Reserves	21(a)	139,139	202,763
Retained earnings	21(b)	<u>(16,629,355)</u>	<u>(7,900,440)</u>
Total equity		<u>88,737,066</u>	<u>46,966,100</u>

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

Flinders Mines Limited
Statement of changes in equity
For the year ended 30 June 2010

Notes	Ordinary shares \$	Available-for- sale financial assets reserve \$	Option reserve \$	Retained earnings \$	Total equity \$
Balance at 1 July 2008	<u>33,068,413</u>	<u>122,500</u>	<u>95,350</u>	<u>(3,965,132)</u>	<u>29,321,131</u>
Total comprehensive income for the year					
Profit/ (loss) for the year	21 -	-	-	(3,935,308)	(3,935,308)
Revaluation of financial assets (net of tax)	21 -	(2,241,000)	-	-	(2,241,000)
Impairment to statement of comprehensive income	21 -	<u>2,118,500</u>	-	-	<u>2,118,500</u>
Transactions with owners in their capacity as owners:					
Options issued during the period	20 -	-	107,413	-	107,413
Contributions of equity	20 22,007,033	-	-	-	22,007,033
Transaction costs (net of tax)	20 (411,669)	-	-	-	(411,669)
Subtotal	<u>21,595,364</u>	<u>-</u>	<u>107,413</u>	<u>-</u>	<u>21,702,777</u>
Balance at 30 June 2009	<u>54,663,777</u>	<u>-</u>	<u>202,763</u>	<u>(7,900,440)</u>	<u>46,966,100</u>

Notes	Ordinary shares \$	Available-for- sale financial assets reserve \$	Option reserve \$	Retained earnings \$	Total equity \$
Balance at 1 July 2009	<u>54,663,777</u>	<u>-</u>	<u>202,763</u>	<u>(7,900,440)</u>	<u>46,966,100</u>
Total comprehensive income for the year					
Profit/ (loss) for the period	21 -	-	-	(8,728,915)	(8,728,915)
Revaluation of financial assets (net of tax)	21 -	(126,895)	-	-	(126,895)
Transactions with owners in their capacity as owners:					
Options issued during the period	20 -	-	63,271	-	63,271
Contributions of equity	20 52,811,850	-	-	-	52,811,850
Transaction costs (net of tax)	20 (2,248,345)	-	-	-	(2,248,345)
Subtotal	<u>50,563,505</u>	<u>-</u>	<u>63,271</u>	<u>-</u>	<u>50,626,776</u>
Balance at 30 June 2010	<u>105,227,282</u>	<u>(126,895)</u>	<u>266,034</u>	<u>(16,629,355)</u>	<u>88,737,066</u>

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

Flinders Mines Limited
Statement of cash flows
For the year ended 30 June 2010

	Notes	2010 \$	2009 \$
Cash flows from operating activities			
Interest received		1,095,971	895,548
Payments to suppliers and employees		(2,802,511)	(1,754,491)
Other revenue		<u>162,645</u>	<u>-</u>
Net cash outflow (inflow) from operating activities	27	<u>(1,543,895)</u>	<u>(858,943)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(968,259)	(492,201)
Payments for investments		(15,000)	(262,500)
Loans to related parties		(75,000)	(275,000)
Proceeds from sale of property, plant and equipment		-	25,000
Payment of exploration activities		<u>(13,008,755)</u>	<u>(12,957,704)</u>
Net cash (outflow) inflow from investing activities		<u>(14,067,014)</u>	<u>(13,962,405)</u>
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		52,811,850	22,007,033
Transaction costs		<u>(2,916,277)</u>	<u>(588,098)</u>
Net cash inflow (outflow) from financing activities		<u>49,895,573</u>	<u>21,418,935</u>
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the financial year		<u>20,522,605</u>	<u>13,925,018</u>
Cash and cash equivalents at end of year	7	<u>54,807,269</u>	<u>20,522,605</u>

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation in these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have 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. Compliance with AIFRSs ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared on an accrual basis, under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

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.

(b) Accounting standards not previously applied

The Company has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current year. Disclosures required by these Standards that are deemed material have been included in these financial statements on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in these financial statements include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third Statement of Financial Position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

Third statement of financial position

Two comparative periods are presented for the statement of financial position when the Company:

- i Applies an accounting policy retrospectively,
- ii Makes a retrospective restatement of items in its financial statements, or
- iii Reclassifies items in the financial statements

We have determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.

1 Summary of significant accounting policies (continued)

Operating Segments

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Company, is the Board of Directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and the Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the financial reports have been included.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

(d) Revenue recognition

Interest income

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

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1 Summary of significant accounting policies (continued)

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statements of financial position.

(h) Trade receivables

Trade receivables are recognised initially at fair value and are generally due for settlement within 30 days.

(i) Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 12).

(j) Joint ventures

Jointly controlled assets

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 25.

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

(k) Investments and other financial assets

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

1 Summary of significant accounting policies (continued)

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is reclassified from equity and recognised in the profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

(I) 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 recognized 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 reporting 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.

1 Summary of significant accounting policies (continued)

Gains and losses on disposals are determined in 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.

(m) Trade and other payables

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

(n) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, such as annual leave, expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Flinders Mines Limited Employee Share Option Plan. Information relating to the scheme is set out in note 29.

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.

(o) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(p) Exploration and evaluation expenditure

Exploration and evaluation costs related to an area of interest are written off as incurred except they may be carried forward as an item in the statement of financial position where the rights of tenure of an area are current and one of the following conditions is met:

- the costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and

1 Summary of significant accounting policies (continued)

- exploration and/or evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. General and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the area of interest to which the asset relates.

Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

Identifiable exploration assets acquired are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 3 *Business Combinations*.

Exploration and evaluation expenditure incurred subsequent to the acquisition in respect of an exploration asset acquired is accounted for in accordance with the policy outlined above.

All capitalised exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that an impairment may exist. Exploration and evaluation assets are also tested for impairment once commercial reserves are found, before the assets are transferred to development properties.

(q) Decommissioning and site rehabilitation

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by the exploration, development or ongoing production. Costs are estimated on the basis of a formal closure plan and are subject to regular review.

The costs for restoration of site damage, which is created on an ongoing basis during production, are provided at their net present values and charged against operating profits as extraction progresses. Changes in the measurement of a liability relating to site damage created during production is charged against operating profit.

(r) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(s) Comparative Figures

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

(t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

1 Summary of significant accounting policies (continued)

(u) Key estimates

Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the group 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(p). 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 statement of comprehensive income.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(v) New accounting standards and interpretations

The AASB has issued new and amended accounting 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:

The Company does not anticipate the early adoption of any of the below Australian Accounting Standards.

AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has not yet determined the potential impact on the financial statements. The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
 - a. the objective of the entity's business model for managing the financial assets;
 - b. the characteristics of the contractual cash flows.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Company.

AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards 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.

1 Summary of significant accounting policies (continued)

AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Company.

AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Company.

AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Company.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Company.

AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Company.

AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. These amendments are not expected to impact the Company.

2 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out by management under policies approved by the board of directors. Management identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The board provides written principles for overall risk management, such as interest rate risk, credit risk and investment of excess liquidity.

The Company's financial instruments consist mainly of deposits with banks, accounts receivable and payable, available for-sale investments and loans to associated companies.

The Company holds the following financial instruments:

	2010 \$	2009 \$
Financial assets		
Cash and cash equivalents	54,807,269	20,522,605
Trade and other receivables	2,261,253	1,024,792
Investments accounted for using the equity method	1	1
Available-for-sale financial assets	<u>273,972</u>	<u>394,000</u>
	<u>57,342,495</u>	<u>21,941,398</u>
Financial liabilities		
Trade and other payables	<u>2,201,946</u>	<u>753,895</u>
	<u>2,201,946</u>	<u>753,895</u>

(a) Market risk

(i) Foreign exchange risk

The Company is not exposed to foreign exchange risk.

(ii) Price risk

The Company is not exposed to any material price risk.

(iii) Cash flow and fair value interest rate risk

Interest rate risk 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. Interest rate risk is managed by the Company with the use of rolling short-term deposits. The Company has no long term financial liabilities upon which it pays interest.

	30 June 2010		30 June 2009	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Cash and cash equivalents	6.1 %	54,807,269	3.4 %	20,522,605
Net exposure to cash flow interest rate risk		<u>54,807,269</u>		<u>20,522,605</u>

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.

2 Financial risk management (continued)

(iv) Interest rate sensitivity analysis

At 30 June 2010, 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:

30 June 2010	Carrying amount \$	Interest rate risk			
		Increase 2%		Decrease 2%	
		Profit \$	Equity \$	Profit \$	Equity \$
Financial assets					
Cash and cash equivalents	54,807,269	<u>1,096,145</u>	<u>1,096,145</u>	<u>(1,096,145)</u>	<u>(1,096,145)</u>
Total increase/ (decrease)		<u>1,096,145</u>	<u>1,096,145</u>	<u>(1,096,145)</u>	<u>(1,096,145)</u>

30 June 2009	Carrying amount \$	Interest rate risk			
		Increase 2%		Decrease 2%	
		Profit \$	Equity \$	Profit \$	Equity \$
Financial assets					
Cash and cash equivalents	20,522,605	<u>410,452</u>	<u>410,452</u>	<u>(410,452)</u>	<u>(410,452)</u>
Total increase/ (decrease)		<u>410,452</u>	<u>410,452</u>	<u>(410,452)</u>	<u>(410,452)</u>

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in settling its debts or otherwise meeting its obligations. The Company manages liquidity risk by monitoring cash flows and ensuring that adequate funds are available to meet cash demands. At the reporting date the Company held deposits at call of \$53,056,481 (2009 \$14,345,000), that are expected to readily generate cash inflows for managing liquidity risk.

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, Flinders Mines Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the company's assets and liabilities measured and recognised at fair value at 30 June 2010.

2 Financial risk management (continued)

As at 30 June 2010	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Available-for-sale financial assets				
Maximus Resources Limited	211,972	-	-	211,972
Copper Range Limited	22,000	-	-	22,000
Phoenix Copper Limited	40,000	-	-	40,000
FME Exploration Services Pty Ltd	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total assets	<u>273,973</u>	<u>-</u>	<u>-</u>	<u>273,973</u>

As at 30 June 2009	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Available-for-sale financial assets				
Maximus Resources Limited	378,000	-	-	378,000
Copper Range Limited	16,000	-	-	16,000
FME Exploration Services Pty Ltd	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total assets	<u>394,001</u>	<u>-</u>	<u>-</u>	<u>394,001</u>

3 Segment information

(a) Description of segments

Identification of reportable segments

Management has determined the operating segments based on the reports reviewed by the strategic steering committee that are used to make strategic decisions. Flinders Mines Limited is managed primarily on the basis of geographical area of interest, since the diversification of Flinders Mines Limited operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

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

- External regulatory requirements
- Geographical and geological styles

Operations

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

Accounting policies developed

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

Comparative Information

This is the first reporting period in which AASB 8: Operating segments has been adopted. Comparative information has been stated to conform to the requirements of the standard.

3 Segment information (continued)

(b) Business segments

2010	Pilbara Iron Ore \$	Canegrass Magnetite \$	Diamonds and Phosphate \$	Other \$	Total \$
Segment revenue	-	-	-	-	-
Adjusted EBITDA	-	-	(5,748,987)	(660,021)	(6,409,008)
Impairment	-	-	(5,748,987)	(660,021)	(6,409,008)
Segment assets	<u>22,697,425</u>	<u>1,931,728</u>	<u>6,790,238</u>	<u>683,292</u>	<u>32,102,683</u>
Segment asset movements for the period					
Capital expenditure	11,551,495	610,568	1,364,104	518,337	14,044,504
Impairment	-	-	(5,748,987)	(660,021)	(6,409,008)
Total movement for the period	<u>11,551,495</u>	<u>610,568</u>	<u>(4,384,883)</u>	<u>(141,684)</u>	<u>7,635,496</u>
Total exploration and evaluation					32,102,683
Unallocated assets					58,999,782
Total assets					91,102,465
Total segment liabilities	814,000	156,000	112,000	-	1,082,000
Unallocated liabilities					1,283,399
Total liabilities					2,365,399

3 Segment information (continued)

2009	Pilbara Iron Ore \$	Canegrass Magnetite \$	Diamonds and Phosphate \$	Other \$	Total \$
Segment revenue	-	-	-	-	-
Adjusted EBITDA	-	-	-	-	-
Impairment	-	-	-	-	-
Segment assets	<u>11,145,933</u>	<u>1,320,666</u>	<u>11,202,318</u>	<u>1,268,387</u>	<u>24,937,304</u>
Segment asset movements for the period					
Capital expenditure	9,292,564	20,666	1,941,568	45,123	11,299,921
Acquisitions	-	1,300,000	-	-	1,300,000
Total movement for the period	<u>9,292,564</u>	<u>1,320,666</u>	<u>1,941,568</u>	<u>45,123</u>	<u>12,599,921</u>
Total exploration and evaluation					24,937,304
Unallocated assets					22,857,993
Total assets					47,795,297
Total segment liabilities	356,000	112,980	-	-	468,980
Unallocated liabilities					360,217
Total liabilities					829,197

(i) *Segment revenue*

Segment revenue reconciles to total revenue from continuing operations as follows:

	2010 \$	2009 \$
Total segment revenue	-	-
Interest revenue	<u>2,340,833</u>	<u>791,898</u>
Total revenue from continuing operations (note 4)	<u>2,340,833</u>	<u>791,898</u>

3 Segment information (continued)

(ii) *Adjusted EBITDA*

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

	2010	2009
	\$	\$
Adjusted EBITDA		
Allocated adjusted EBITDA	(6,409,008)	-
Unallocated:		
Interest revenue	2,340,833	791,898
Loss on disposal of assets	-	(15,374)
Marketing expense	(637,885)	(255,036)
Administrative expense	(2,630,978)	(1,961,830)
Finance costs	(8,295)	(4,899)
Exploration general written off	(470,117)	(357,783)
Impairment of other assets	-	(2,118,500)
Profit before income tax from continuing operations	<u>(7,815,450)</u>	<u>(3,921,524)</u>

(iii) *Segment assets*

Reportable segments' assets are reconciled to total assets as follows:

	2010	2009
	\$	\$
Segment assets		
Allocated segment assets	32,102,683	24,937,304
Unallocated:		
Available-for-sale financial assets	273,972	394,000
Cash and cash equivalents	54,807,269	20,522,605
Trade and other receivables	2,261,253	1,024,792
Security deposit	27,000	27,000
Investments accounted for using the equity method	1	1
Property, plant and equipment	<u>1,630,287</u>	<u>889,595</u>
Total assets as per the statement of financial position	<u>91,102,465</u>	<u>47,795,297</u>

(iv) *Segment liabilities:*

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2010	2009
	\$	\$
Segment liabilities		
Allocated segment liabilities	1,082,000	468,980
Unallocated:		
Trade and other payables	1,119,946	284,915
Provisions	<u>163,453</u>	<u>75,302</u>
Total liabilities as per the statement of financial position	<u>2,365,399</u>	<u>829,197</u>

4 Revenue

	2010	2009
	\$	\$
From continuing operations		
Other revenue		
Interest received	<u>2,340,833</u>	<u>791,898</u>
	<u>2,340,833</u>	<u>791,898</u>

5 Expenses

	2010	2009
	\$	\$
Exploration Expenses		
General exploration written off	470,117	357,783
Capitalised exploration expenditure impaired	<u>6,409,008</u>	<u>-</u>
	<u>6,879,125</u>	<u>357,783</u>
Marketing		
Marketing and promotion	<u>637,885</u>	<u>255,036</u>
	<u>637,885</u>	<u>255,036</u>
Administration		
Compliance	480,254	349,517
Depreciation	127,668	17,861
Administration costs	1,118,778	719,881
Legal fees	103,243	64,934
Employment costs	760,680	655,849
Other	<u>40,355</u>	<u>153,788</u>
	<u>2,630,978</u>	<u>1,961,830</u>

6 Income tax expense

	2010	2009
	\$	\$
(a) Income tax expense		
Current tax	1,017,959	176,430
Research and development tax offset	<u>(104,494)</u>	<u>(162,646)</u>
	<u>913,465</u>	<u>13,784</u>
	2010	2009
	\$	\$
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	<u>(7,815,450)</u>	<u>(3,921,524)</u>
Tax at the Australian tax rate of 30% (2009 - 30%)	<u>(2,344,635)</u>	<u>(1,176,458)</u>
Add:		
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-allowable items	13,934	636,390
Share options expenses during the year	19,401	32,224
Recognition of timing differences not brought to account	3,329,258	684,274
Less:		
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research and development tax offset	<u>(104,494)</u>	<u>(162,646)</u>
Income tax expense	<u>913,464</u>	<u>13,784</u>

Deferred tax assets on the timing differences have not been recognised as they do not meet the recognition criteria as outlined in Note 1(d) in the financial statements. Deferred Tax Asset (DTA) arising from tax losses are not recognised at reporting date as realisation of the benefit is not regarded as probable:

- timing differences at 30%
- tax losses at 30%

The Company has deferred tax assets arising in Australia of \$14,718,823 (2009: \$1,791,256) that are available indefinitely for offset against future taxable profits of the companies in which the losses arise.

7 Current assets - Cash and cash equivalents

	2010	2009
	\$	\$
Cash at bank and in hand	1,750,788	6,177,605
Term deposits	<u>53,056,481</u>	<u>14,345,000</u>
	<u>54,807,269</u>	<u>20,522,605</u>

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	2010	2009
	\$	\$
Balance as per statement of cash flows	<u>54,807,269</u>	<u>20,522,605</u>
	<u>54,807,269</u>	<u>20,522,605</u>

(b) Risk exposure

The Company's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(c) Deposits at call

The deposits are bearing a weighted average interest rate of 6.1% (2009 - 3.4%). These deposits have an average period to repricing of 101 days (2009 121 days).

8 Current assets - Trade and other receivables

	2010	2009
	\$	\$
Net trade receivables		
Trade receivables	1,521,199	499,792
GST clearing account	<u>108,049</u>	<u>-</u>
	<u>1,629,248</u>	<u>499,792</u>
Net associated company receivables		
Receivable from FME Exploration Services Pty Ltd*	<u>600,000</u>	<u>525,000</u>
	<u>600,000</u>	<u>525,000</u>
Prepayments		
Pre Paid Insurance	<u>32,005</u>	<u>-</u>
	<u>32,005</u>	<u>-</u>
	<u>2,261,253</u>	<u>1,024,792</u>

* 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.

8 Current assets - Trade and other receivables (continued)

(a) Past due but not impaired

As of 30 June 2010 (2009: nil), 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 Mines Limited. 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.

9 Non-current assets - Investments accounted for using the equity method

	2010 \$	2009 \$
Shares in associates (note 12)	1	1
	1	1

(a) Shares 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.

10 Contingencies

Contingent liabilities

The Company had no known contingent liabilities as at 30 June 2010 (2009: nil).

11 Commitments

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 2011 amounts of approximately \$3,990,000 (2010: \$379,000) to meet minimum expenditure requirements pursuant to various joint venture arrangements.

12 Investment in associates

Interests are held in the following associated companies.

FME Exploration Services Pty Ltd

12 Investment in associates (continued)

	2010	2009
	\$	\$
(a) Summarised presentation of aggregate assets, liabilities and performance of associate		
Current assets	512,545	386,586
Non-current assets	<u>341,159</u>	<u>428,969</u>
Total assets	<u>853,704</u>	<u>815,555</u>
Current liabilities	<u>853,701</u>	<u>815,552</u>
Total liabilities	<u>853,701</u>	<u>815,552</u>
Net assets	3	3
Shares of associate's profit after tax	-	-

	2010	2009
	\$	\$
(b) Contingent liabilities of associates		
Share of contingent liabilities incurred jointly with other investors	<u>85,028</u>	<u>83,334</u>
Total	<u>85,028</u>	<u>83,334</u>

13 Non-current assets - Available-for-sale financial assets

(a) Fair values

Available-for-sale financial assets include the following classes of financial assets:

	2010	2009
	\$	\$
Shares in listed companies	<u>273,972</u>	<u>394,000</u>
	<u>273,972</u>	<u>394,000</u>

(b) Listed securities

Available-for-sale financial assets comprise investments in the ordinary capital of Maximus Resources Limited, Copper Range Limited and Phoenix Copper 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 Non-current assets - Property, plant and equipment

	Plant and equipment \$	Furniture, fittings and equipment \$	Machinery and vehicles \$	Computer hardware \$	Computer software \$	Total \$
Year ended 30 June 2009						
Opening net book amount	262,260	-	289,387	-	-	551,647
Additions	68,293	7,299	316,528	8,546	94,330	494,996
Disposals	(2,795)	-	(40,374)	-	-	(43,169)
Depreciation charge	(41,665)	(584)	(54,353)	(1,668)	(15,609)	(113,879)
Closing net book amount	<u>286,093</u>	<u>6,715</u>	<u>511,188</u>	<u>6,878</u>	<u>78,721</u>	<u>889,595</u>

At 30 June 2009						
Cost or fair value	381,260	7,299	586,305	8,546	94,330	1,077,740
Accumulated depreciation	(95,167)	(584)	(75,117)	(1,668)	(15,609)	(188,145)
Net book amount	<u>286,093</u>	<u>6,715</u>	<u>511,188</u>	<u>6,878</u>	<u>78,721</u>	<u>889,595</u>

	Plant and equipment \$	Furniture, fittings and equipment \$	Machinery and vehicles \$	Computer hardware \$	Computer software \$	Total \$
Year ended 30 June 2010						
Opening net book amount	286,093	6,715	511,188	6,878	78,721	889,595
Additions	802,223	2,468	98,207	32,739	32,622	968,259
Disposals	-	-	-	-	-	-
Depreciation charge	(107,880)	(889)	(75,294)	(3,385)	(40,119)	(227,567)
Closing net book amount	<u>980,436</u>	<u>8,294</u>	<u>534,101</u>	<u>36,232</u>	<u>71,224</u>	<u>1,630,287</u>

At 30 June 2010						
Cost or fair value	1,183,483	9,767	684,512	41,285	126,952	2,045,999
Accumulated depreciation	(203,047)	(1,473)	(150,411)	(5,053)	(55,728)	(415,712)
Net book amount	<u>980,436</u>	<u>8,294</u>	<u>534,101</u>	<u>36,232</u>	<u>71,224</u>	<u>1,630,287</u>

15 Non-current assets - Exploration and evaluation, development and mine properties

Exploration and evaluation

	2010	2009
	\$	\$
Exploration and evaluation		
Opening balance	24,937,304	12,337,383
Expenditure incurred	14,044,504	12,957,704
Less: expenditure written off	<u>(6,879,125)</u>	<u>(357,783)</u>
	<u>32,102,683</u>	<u>24,937,304</u>
Exploration and evaluation - 100% owned	22,205,321	12,337,383
Exploration and evaluation phases - Joint Ventures	<u>9,897,362</u>	<u>12,599,921</u>
	<u>32,102,683</u>	<u>24,937,304</u>

16 Non-current assets - Other non-current assets

	2010	2009
	\$	\$
Security bonds	<u>27,000</u>	<u>27,000</u>
	<u>27,000</u>	<u>27,000</u>

17 Current liabilities - Trade and other payables

	2010	2009
	\$	\$
Trade payables	2,126,470	693,989
Accrued expenses	28,449	61,750
Credit Cards	<u>47,027</u>	<u>(1,844)</u>
	<u>2,201,946</u>	<u>753,895</u>

18 Current liabilities - Provisions

	2010	2009
	\$	\$
Annual leave	<u>135,495</u>	<u>75,302</u>
	<u>135,495</u>	<u>75,302</u>

19 Non-current liabilities - Provisions

	2010	2009
	\$	\$
Long service leave	<u>27,958</u>	<u>-</u>
	<u>27,958</u>	<u>-</u>

20 Contributed equity

	2010 Shares	2009 Shares	2010 \$	2009 \$
(a) Share capital				
Ordinary shares				
Fully paid	1,819,849,571	1,430,989,208	105,227,282	54,663,777

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
1 July 2008	Opening balance	1,109,678,754		34,618,680
	Shares issued during the year	321,310,454		22,007,033
	Less: Transaction costs arising on share issue	-		(1,961,936)
30 June 2009	Balance	1,430,989,208		54,663,777
1 July 2009	Opening balance	1,430,989,208		54,663,777
2 September 2009	Exercise of employee options	115,000		
	Proceeds received		\$0.05	5,175
22 September 2009	Exercise of employee options	110,000		
	Proceeds received		\$0.05	4,950
4 November 2009	Exercise of employee options	305,000		
	Proceeds received		\$0.05	13,725
6 November 2009	Exercise of employee options	300,000		
	Proceeds received		\$0.02	5,100
6 November 2009	Exercise of employee options	55,000		
	Proceeds received		\$0.08	4,620
6 November 2009	Exercise of employee options	56,667		
	Proceeds received		\$0.05	2,550
9 November 2009	Placement	160,000,000		
	Proceeds received		\$0.15	23,200,000
4 December 2009	Rights Issue	227,418,696		
	Proceeds received		\$0.13	29,564,430
2 June 2010	Exercise of employee options	400,000		
	Proceeds received		\$0.02	6,800
2 June 2010	Exercise of employee options	100,000		
	Proceeds received		\$0.05	4,500
				107,475,627
	Less: Transaction costs arising on share issue			(2,248,345)
30 June 2010	Balance	1,819,849,571		105,227,282

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

20 Contributed equity (continued)

(d) 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 29, Share Based Payments.

(e) Capital risk management

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.

21 Reserves and retained earnings

	2010 \$	2009 \$
(a) Reserves		
Available-for-sale investments revaluation reserve	(126,895)	-
Options	<u>266,034</u>	<u>202,763</u>
	<u>139,139</u>	<u>202,763</u>
(b) Retained earnings		
Movements in retained earnings were as follows:		
Balance as at 1 July 2009	(7,900,440)	(3,965,132)
Net profit/ (loss) for the year	<u>(8,728,915)</u>	<u>(3,935,308)</u>
Balance as at 30 June 2010	<u>(16,629,355)</u>	<u>(7,900,440)</u>

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.

Available-for-sale reserve

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

22 Key management personnel disclosures

(a) Directors

The following persons were directors of Flinders Mines Limited during the financial year:

(i) Chairman - non-executive

R M Kennedy

(ii) Executive directors

K J A Wills, Managing Director (retired 31 August 2010)

N J Corlis, Alternate Director for K J A Wills (ceased 31 August 2010)

(iii) Non-executive directors

E J Vickery

G M May, Alternate Director E J Vickery

N J Smart, Non-executive Director (since 1 September 2010) (Alternate Director for R M Kennedy, since 7 December 2009)

A J Andrejewskis, Alternate Director for R M Kennedy (ceased 25 November 2009)

J D Cooper (since 13 September 2010)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year:

<i>Name</i>	<i>Position</i>	<i>Employer</i>
D W Godfrey	Chief Financial Officer/ Company Secretary	FME Exploration Services Pty Ltd
G D Sutherland	General Manager - Projects	Flinders Mines Limited

(c) Key management personnel compensation

	2010 \$	2009 \$
Short-term employee benefits	1,290,351	703,463
Post-employment benefits	112,179	52,355
Share-based payments	<u>14,327</u>	<u>23,512</u>
	<u>1,416,857</u>	<u>779,330</u>

Details of the remuneration of each director of Flinders Mines Limited are included in sections A to D of the Remuneration Report.

22 Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Flinders Mines Limited and other key management personnel of the Company, including their personally related parties, are set out below.

2010

Name	Balance at start of the year	Issued as remuneration	Exercised (expired/ purchased)	Acquired during the year	Balance at end of the year	Vested and exercisable	Unvested
R M Kennedy	-	-	-	-	-	-	-
K J A Wills	-	-	-	-	-	-	-
E J Vickery	-	-	-	-	-	-	-
A J Andrejewskis	-	-	-	-	-	-	-
N J Corlis	495,000	-	-	-	495,000	495,000	-
G M May	-	-	-	-	-	-	-
J D Cooper	-	-	-	-	-	-	-
N J Smart	-	-	-	-	-	-	-
D W Godfrey	-	-	-	-	-	-	-
G D Sutherland	-	300,000	-	-	300,000	300,000	-

2009

Name	Balance at start of the year	Issued as remuneration	Exercised (expired/ purchased)	Acquired during the year	Balance at end of the year	Vested and exercisable	Unvested
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	-
K J Lines	-	-	-	-	-	-	-
G M May	85,674	-	(85,674)	-	-	-	-
D W Godfrey	-	53,334	(53,334)	-	-	-	-
R W C Wilson	1,000,000	-	(1,000,000)	-	-	-	-

22 Key management personnel disclosures (continued)

(ii) Share holdings

The numbers of shares in the company held during the financial year by each director of Flinders Mines Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2010

Name	Balance at the start of the year	Received as compensation	Exercise of options	Acquired/ (disposed)	Balance at the end of the year
Ordinary shares					
R M Kennedy	27,283,017	-	-	3,897,573	31,180,590
K J A Wills	11,670,000	-	-	(670,000)	11,000,000
E J Vickery	3,363,646	-	-	1,207,782	4,571,428
A J Andrejewskis	-	-	-	-	-
N J Corlis	-	-	-	-	-
G M May	620,000	-	-	-	620,000
J D Cooper	-	-	-	-	-
N J Smart	-	-	-	-	-
D W Godfrey	147,673	-	-	21,096	168,769
G D Sutherland	-	-	-	-	-

2009

Name	Balance at the start of the year	Received as compensation	Exercise of options	Acquired/ (disposed)	Balance at the end of the year
Ordinary shares					
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

23 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2010 \$	2009 \$
(a) Grant Thornton		
Audit and review of financial reports	<u>25,450</u>	<u>21,750</u>
Total auditors' remuneration	<u>25,450</u>	<u>21,750</u>

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.

Transactions with related parties

The following transactions occurred with related parties:

- Administrative services were provided by FME Exploration Services Pty Ltd to Flinders Mines Limited for \$997,727 (2009: \$666,251).
- Flinders Mines Limited advanced FME Exploration Services Pty Ltd \$75,000 (2009: \$275,000), to fund working capital. The total receivable from FME Exploration Services Pty Ltd at year end is \$600,000 (2009: \$525,000).
- Flinders Mines Limited purchased two vehicles from Maximus Resources Limited for \$98,207.
- Flinders Mines Limited purchased shares in Maximus Resources Limited for \$15,000.

25 Interests in 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, E47/1011, 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 a 1% royalty on iron ore production for the 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 EL3832, EL4294 and EL3434 for a cash purchase price of \$1 million	Five annual payments of \$50 000 for a total of \$250 000
SA	Filsell Grainger Diamond Project Letter of Offer	FMS and Ian Robert Filsell, Mark Andrew Filsell and William John Filsell	FMS has earned 100% of the diamond rights in exploration licences EL3692 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	Central Gawler Craton Joint Venture	FMS and Tasman Resources NL	FMS has earned a 70% interest in the project area diamond rights only by expenditure of \$750 000 a 4 year period	

25 Interests in joint ventures (continued)

State	Agreement Name	Parties	Summary	Consideration
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% by expenditure of a further \$1 million	
SA	Phoenix Agreement	FMS and Phoenix Copper Ltd	FMS sold most of its mineral rights in EL4370 to Phoenix but has retained the right to explore for and, if warranted, develop mining operations on the tenement for diamonds, barium, talc and phosphate	FMS received a cash payment and shares in Phoenix for sale of its other mineral rights in EL4370. FMS to receive a production royalty from Phoenix
SA/ WA	FEX and FMS Joint Venture	FMS and Flinders Exploration Ltd (FEX)	FEX can earn up to 75% of the rights to diamonds in the Pilbara tenements and 75% of rights to all minerals except iron ore in all other tenements by spending \$6,000,000	
SA	Copper Range Replacement Agreement	FMS and Copper Range Ltd	Copper Range has transferred its entire interest in the Springfield, Jamestown and Nackara project to FMS apart from EL 4368 in which FMS has transferred its metal rights to Copper Range	

26 Events occurring after the reporting period

Dr Kevin John Anson Wills retired as Managing Director of Flinders Mines Limited with effect from 31 August 2010, having been Managing Director since incorporation 11 January 2000. Mr Gary David Sutherland has been appointed Acting CEO of Flinders Mines Limited.

Mr Nicholas John Smart has been appointed Non-executive Director, effective 1 September 2010. Mr Smart is also serving as Alternate Director for Mr Robert Michael Kennedy.

Mr John David Cooper has been appointed as a Non-executive Director effective 13 September 2010.

Apart from the above, 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

27 Reconciliation of profit after income tax to net cash inflow from operating activities

	2010 \$	2009 \$
Profit/ (loss) for the year	(8,728,915)	(3,935,308)
Non-cash flows in profit		
Depreciation and amortisation	227,567	113,879
Issue of options to employees	63,271	107,413
Deferred tax asset written off	1,017,959	176,429
Exploration expenditure written off	6,879,125	357,783
Impairment of financial assets	-	2,118,500
Loss on disposal of assets	-	15,374
Changes in operating assets and liabilities		
Increase/ (Decrease) in trade payables and accruals	70,407	387,419
Increase/ (Decrease) in provisions	88,151	55,689
(Increase)/ Decrease in trade and other receivables	(1,161,460)	(256,121)
Net cash inflow (outflow) from operating activities	<u>(1,543,895)</u>	<u>(858,943)</u>

28 Earnings per share

	2010 \$	2009 \$
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	(8,728,915)	(3,935,308)
Weighted average number of ordinary shares outstanding during the year used to calculate basic EPS	1,664,471,996	1,196,289,285
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	(8,728,915)	(3,935,308)
Weighted average number of options outstanding during the year used to calculate diluted EPS	-	-
Weighted average number of ordinary shares outstanding during the year used to calculate diluted EPS	1,664,471,996	1,196,289,285

Options

Options granted to employees under Flinders Mines Limited Employee Share Option Plan are considered to be potential ordinary shares. These have a dilutive effect on the weighted average number of ordinary shares. As Flinders Mines Limited has reported a loss of \$8,728,915 this financial year, the options have not been included in the determination of diluted earnings per share. Details relating to the options are set out in note 29.

29 Share-based payments

(a) Employee Option Plan

The following share-based payment arrangements existed at 30 June 2010.

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 6 March 2008 400,000 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 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.

On 26 August 2009 480,000 options were issued to employees under the Company's employee option plan. The options are exercisable at 5.5 cents on or before 26 August 2014. The options hold no voting or dividend rights.

On 22 January 2010 300,000 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.

Options granted under the plan carry no dividend or voting rights.

2010	Number of options	Weighted average exercise price \$
Outstanding at beginning of the year	5,329,166	0.040
Granted	780,000	0.040
Exercised	(1,741,667)	0.033
Expired	<u>(1,575,000)</u>	<u>0.034</u>
Outstanding at end of the year	<u>2,792,499</u>	<u>0.046</u>
2009	Number of options	Weighted average exercise price \$
Outstanding at beginning of the year	368,207,139	0.1000
Granted	2,505,000	0.0450
Exercised	(94,882,255)	0.0990
Expired	<u>(270,500,718)</u>	<u>0.0100</u>
Outstanding at the end of the year	<u>5,329,166</u>	<u>0.040</u>

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.046 and a weighted average remaining contractual life of 38 months. Exercise prices range from \$0.017 to \$0.084 in respect of options outstanding at 30 June 2010.

29 Share-based payments (continued)

Fair value of options granted

The weighted average fair value at grant date of options granted during the year ended 30 June 2010 was \$0.081 (2009 - \$0.0429). The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2010 included:

- (a) Weighted average exercise price: \$0.04 (2009 - \$0.045)
- (b) Weighted average life of options: 4 years (2009 - 5 years)
- (c) Weighted average underlying share price: \$0.11 (2009 - \$0.056)
- (d) Weighted average expected share price volatility: 36.7% (2009 - 94.92%)
- (e) Weighted average risk free interest rate: 4.98% (2009 - 3.58%)

In the directors' opinion:

- (a) the financial statements and notes set out on pages 19 to 53 are in accordance with the *Corporations Act 2001*, in
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (c) The financial statements also comply with International Reporting Standards as discussed in note 1.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Robert M Kennedy

Director

Adelaide
29th September 2010

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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 (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the Company.

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 are 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. The directors also state, in the notes to the financial report, 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 which require us to 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 opinion.

Independence

In conducting our audit, we have complied with the 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 2010 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 the notes to the financial statements.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. 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 on the remuneration report

In our opinion, the Remuneration Report of Flinders Mines Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Adelaide, 29 September 2010