



Flinders Mines Limited

ABN 46 091 118 044

Financial report

for the half-year ended 31 December 2016

(To be read in conjunction with the 30 June 2016 Annual Report)

Flinders Mines Limited ABN 46 091 118 044

Financial report - 31 December 2016

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

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

Flinders Mines Limited
Level 1, 135 Fullarton Road
Rose Park
Adelaide South Australia 5067

The registered postal address is:

Flinders Mines Limited
PO Box 4031
Norwood South
Adelaide South Australia 5067

The interim financial statements were authorised for issue by the Directors on 28 February 2017. The Directors have the power to amend and reissue the interim financial statements.

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

Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Flinders Mines Limited (referred to hereafter as the Parent Entity or the Company) and the entities it controlled at the end of, and during, the half-year ended 31 December 2016.

Directors

The following persons held office as Directors of Flinders Mines Limited during the financial period:

Neil Fredrick Warburton (*Non-executive Director*) (*appointed 19 October 2016*) (*Non-executive Chairman*) (*appointed 20 December 2016*)

Robert Michael Kennedy (*Non-executive Chairman*) (*until 20 December 2016*) (*Non-executive Director*) (*appointed 20 December 2016*)

Kevin John Malaxos (*Non-executive Director*) (*until 19 October 2016*)

Ewan John Vickery (*Non-executive Director*) (*until 19 October 2016*)

David Kent McAdam (*Non-executive Director*) (*appointed 19 October 2016*)

Michael Brian Wolley (*Non-executive Director*) (*appointed 19 October 2016*)

Evan Welch Davies (*Non-executive Director*) (*appointed 19 October 2016*)

Nicholas John Smart (*Alternate Director for RM Kennedy*)

Review of operations

All tenements remain in good standing.

During the half year the Company :

(i) announced significant changes to the Board with the appointment of Mr Neil Warburton and Mr David McAdam as independent non-executive directors and Mr Michael Wolley and Mr Evan Davies as non-executive directors. Mr Kevin Malaxos and Mr Ewan Vickery retired as non-executive directors of the Company. Subsequent to his appointment to the Board, Mr Warburton was appointed as the Company's chairman with effect from 20 December 2016. Mr Robert Kennedy remains on the Board.

(ii) completed a 1:10 non-renounceable entitlement offer (Entitlement Offer) successfully raising \$4,184,989 (before issue costs). Subscribers to the Entitlement Offer included major shareholders TIO (NZ) Limited and OCJ Investment (Australia) Pty Ltd. Part of the proceeds raised by the Entitlement Offer was utilized to repay a loan (including interest) from PIO Mines Pty Ltd (a subsidiary of TIO (NZ) Limited).


(iii) received from the Federal Government Department of the Environment and Energy conditional approval for the development of an expanded operation at the Pilbara Iron Ore Project (PIOP). This approval allows the development of additional mine pits and infrastructure such as external access roads, airport, ore processing facility, power station, accommodation camp and tailings storage facility. These changes allow an increase in the production of iron ore from 15Mtpa to 25Mtpa. The approval, which has effect until 31 December 2037, is subject to certain conditions, all of which are acceptable to Flinders. The environmental approval, an important primary approval milestone for the project, demonstrates that the PIOP can be developed in an environmentally acceptable manner.

An independent Strategic Review of all the company's assets has been initiated and is expected to be completed by mid-March 2017.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

This report is signed and made in accordance with a resolution of Directors.



Neil F Warburton - Chairman
28 February 2017

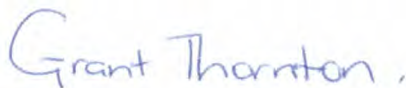
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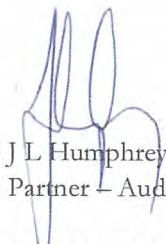
**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF FLINDERS MINES LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Flinders Mines Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 February 2017

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Flinders Mines Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

	Notes	Half-year 2016 \$	2015 \$
Revenue from continuing operations		20,041	55,867
Loss on disposal of assets		-	1,242
Marketing expenses		(120,652)	(452,721)
Administrative expenses		(981,193)	(1,190,387)
Finance costs		(25,415)	(2,315)
Exploration expenditure written off/impaired	5	(58,010)	(23,543,568)
Loss before income tax		(1,165,229)	(25,131,882)
Income tax benefit		675	(750)
Loss for the half year		(1,164,554)	(25,132,632)
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets		1,575	(1,750)
Other comprehensive income for the half year (net of tax)		1,575	(1,750)
Total comprehensive income for the half-year		(1,162,979)	(25,134,382)
Loss is attributable to:			
Owners of Flinders Mines Limited		(1,164,554)	(25,132,632)
Total comprehensive income attributable to:			
Owners of Flinders Mines Limited		(1,162,979)	(25,134,382)
		Cents	Cents
Earnings per share for (loss) attributable to the ordinary equity holders of the Company:			
Basic earnings per share		(0.039)	(0.908)
Diluted earnings per share		(0.039)	(0.908)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Flinders Mines Limited
Consolidated statement of financial position
As at 31 December 2016

	31 December 2016	30 June 2016
Notes	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	3,165,732	550,804
Trade and other receivables	93,595	851,320
Other current assets	252,257	296,667
Total current assets	3,511,584	1,698,791
Non-current assets		
Available-for-sale financial assets	6,750	4,500
Plant and equipment	137,289	216,372
Exploration and evaluation	46,840,354	46,517,562
Other non-current assets	7,000	7,000
Total non-current assets	46,991,393	46,745,434
Total assets	50,502,977	48,444,225
LIABILITIES		
Current liabilities		
Trade and other payables	136,188	1,070,999
Provisions	44,912	36,541
Total current liabilities	181,100	1,107,540
Total non-current liabilities	-	-
Total liabilities	181,100	1,107,540
Net assets	50,321,877	47,336,685
EQUITY		
Contributed equity	129,387,321	125,239,150
Reserves	1,575	-
Retained losses	(79,067,019)	(77,902,465)
Total equity	50,321,877	47,336,685

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

Flinders Mines Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2016

	Contributed equity \$	Reserves \$	Retained losses \$	Total equity \$
Balance at 1 July 2015	124,414,150	268,830	(74,561,536)	50,121,444
Total comprehensive income for the half-year:				
Loss for the year	-	-	(25,132,632)	(25,132,632)
Revaluation of financial assets (net of tax)	-	(1,750)	-	(1,750)
Total comprehensive income for the period	-	(1,750)	(25,132,632)	(25,134,382)
Balance at 31 December 2015	124,414,150	267,080	(99,694,168)	24,987,062
Balance at 1 July 2016	125,239,150	-	(77,902,465)	47,336,685
Total comprehensive income for the half-year:				
Loss for the year	-	-	(1,164,554)	(1,164,554)
Revaluation of financial assets (net of tax)	-	1,575	-	1,575
Total comprehensive income for the period	-	1,575	(1,164,554)	(1,162,979)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	4,148,171	-	-	4,148,171
Balance at 31 December 2016	129,387,321	1,575	(79,067,019)	50,321,877

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

Flinders Mines Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2016

	Half-year	
	2016	2015
	\$	\$
Cash flows from operating activities		
Receipts from customers	-	22,434
Payments to suppliers and employees	(1,230,485)	(1,553,569)
Income tax received	-	578,400
Interest received	20,041	33,433
Net cash (outflow) from operating activities	(1,210,444)	(919,302)
Cash flows from investing activities		
Proceeds from sale of plant and equipment	779	2,264
Payments for exploration activities	(323,578)	(910,609)
Net cash (outflow) from investing activities	(322,799)	(908,345)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	4,195,749	-
Payments for transaction costs	(47,578)	-
Net cash inflow from financing activities	4,148,171	-
Net increase (decrease) in cash and cash equivalents	2,614,928	(1,827,647)
Cash and cash equivalents at the beginning of the financial year	550,804	3,770,160
Cash and cash equivalents at end of financial period	3,165,732	1,942,513

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

1 Basis of preparation of half-year report

This consolidated financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The half-year report is for the consolidated entity consisting of Flinders Mines Limited and its subsidiaries.

This consolidated half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 30 June 2016 and any public announcements made by Flinders Mines Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The annual financial report of the Group for the year ended 30 June 2016 is available on request from the Company's registered office at Level 1, 135 Fullarton Road, Rose Park, South Australia 5067, or the Company's website: www.flindersmines.com.

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

Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2016.

2 Segment information

(a) Description of segments

Identification of reportable segments

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

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

- external regulatory requirements
- geographical and geological styles

Operations

The Group has exploration operations in base metals and iron mineralisation at the Canegrass Project, and a different style of iron mineralisation at the Pilbara Iron Ore Project. The costs associated with these operations are reported on in these segments.

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 with those adopted in the annual financial statements of the Group.

(b) Primary reporting format - business segments

Half-year 2016	Pilbara Iron Ore \$	Canegrass Magnetite \$	Other Minerals \$	Total \$
Adjusted EBITDA	-	-	(58,010)	(58,010)
Capital expenditure written off / impaired for the year 2016	-	-	(58,010)	(58,010)
Total segment assets	46,802,599	16,002	21,753	46,840,354
Segment asset movements for the half-year ended 31 December 2016:				
Capital expenditure	285,038	16,002	79,763	380,803
Impairment of assets	-	-	(58,010)	(58,010)
Total movement for the half-year	285,038	16,002	21,753	322,793
Segment assets				46,840,354
Unallocated assets				3,662,623
Total assets				50,502,977

2 Segment information (continued)

(b) Primary reporting format - business segments (continued)

Half-year 2015	Pilbara Iron Ore \$	Canegrass Magnetite \$	Other Minerals \$	Total \$
Adjusted EBITDA	(23,484,221)	-	(59,347)	(23,543,568)
Total segment assets	22,345,329	346,187	8,484	22,700,000
Segment movements for half year ended 31 December 2016:				
Capital expenditure	829,550	72,325	67,830	969,705
Impairment of assets	(23,484,221)	-	(59,347)	(23,543,568)
Total movement for the year	(22,654,671)	72,325	8,483	(22,573,863)
Segment assets				22,700,000
Unallocated assets				2,540,595
Total Assets				25,240,595

2 Segment information (continued)

(c) Other segment information

(i) Adjusted EBITDA

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

	Half-year	
	2016	2015
	\$	\$
Allocated:		
Adjusted EBITDA	(58,010)	(23,543,568)
Unallocated:		
Other revenue from ordinary activities	20,041	55,867
Loss on disposal of assets	-	1,242
Marketing expenses	(120,652)	(452,721)
Administrative expenses	(981,193)	(1,190,387)
Finance costs	(25,415)	(2,315)
(Loss) before income tax from continuing operations	<u>(1,165,229)</u>	<u>(25,131,882)</u>

3 Contingencies

Contingent liabilities

The Group had no known contingent liabilities at 31 December 2016 (30 June 2016: nil).

4 Commitments

Bank guarantees

The State Government departments responsible for mineral resources require performance bonds for the purposes of rehabilitation of areas disturbed by exploration activities. Financial institutions similarly require guarantees for credit card automatic payment facilities. At 31 December 2016, the Group had \$178,978 of bank guarantees in place for these purposes (30 June 2016: \$178,978).

5 Non-current assets - Exploration and evaluation

	31 December 2016 \$	30 June 2016 \$
Exploration and evaluation assets		
Movement:		
Opening balance	46,517,562	45,273,862
Expenditure incurred	380,802	1,753,743
Less: expenditure written off / impaired	(58,010)	(510,043)
Closing balance	46,840,354	46,517,562
Closing balance comprises		
Exploration and evaluation - 100% owned	44,668,374	44,360,549
Exploration and evaluation phases - Joint Venture Operations	2,171,980	2,157,013
	46,840,354	46,517,562

6 Contributed equity

(a) Share capital

	31 December 2016 Shares	30 June 2016 Shares	31 December 2016 \$	30 June 2016 \$
Ordinary shares				
Ordinary shares - fully paid	3,193,780,409	2,947,152,568	129,387,321	125,239,150

(b) Movements in ordinary share capital

Date	Details	Number of shares	\$
1 July 2016	Opening balance	2,947,152,568	125,239,150
11 November 2016	Share issue - Proceeds received	246,627,841	4,148,171
31 December 2016	Balance	3,193,780,409	129,387,321

(c) Employee incentive rights plan

The Flinders Mines Limited Employee Incentive Rights Plan enables the Board, at its discretion, to issue rights to employees of the Company or its associated companies. The vesting periods of the rights are set at the Board's discretion and all rights have conditions that must be met before they vest. All rights are un-listed and non-transferable. The rights granted under the plan carry no voting or dividend rights.

There were no rights issued to employees during the reporting period.

7 Events occurring after the reporting period

As announced at the 2016 Annual General Meeting of the Company on 30 November 2016, Mr David McAdam, who has extensive project design and construction experience, was appointed to lead a detailed independent, strategic review of the PIOP including to assess the various possible future development options for the PIOP, the likely economic viability and timing of such development options, sources and availability of funding for such development options and the development of a strategy to sell the PIOP products to Asian markets. Subsequent to the half year, on 25 January 2017, Flinders provided an update to shareholders on the status of the strategic review of the PIOP.

8 Going concern

The financial report has been prepared on the basis of going concern.

The Group's ability to continue as a going concern is contingent upon obtaining additional capital. If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the group may have to realise its assets and extinguish its liabilities, other than the ordinary course of business and in amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 4 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year 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.

This declaration is made in accordance with a resolution of Directors.


Neil F Warburton - Chairman
28 February 2017

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

We have reviewed the accompanying half-year financial report of Flinders Mines Limited (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of Flinders Mines Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Flinders Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.

Material Uncertainty related to Going Concern

Without qualifying our opinion, we draw attention to Note 8 in the financial report which indicates that the consolidated entity incurred a net loss of \$1,164,554 during the period ended 31 December 2016 and, as of that date, the consolidated entity's cash outflows from operating and investing activities equates to \$1,533,244. These conditions, along with other matters as set forth in Note 8, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 February 2017