



FLINDERS MINES LIMITED

ACN 091 118 044

FINANCIAL REPORT
For the half-year ended
31 December 2009

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DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

Your directors submit the financial report of the entity for the half-year ended 31 December 2009.

Directors

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

- Mr Robert Michael Kennedy
- Dr Kevin John Anson Wills
- Mr Ewan John Vickery
- Mr Gregory Mornington May (Alternate for E J Vickery)
- Mr Nicholas John Corlis (Alternate for K J A Wills)
- Mr Nicholas John Smart (Alternate for R M Kennedy – appointed 7 December 2009)
- Mr Andrew Joseph Andrejewskis (Alternate for R M Kennedy – ceased 25 November 2009)

Review of Operations

In the second half of 2009, Flinders Mines Limited (FMS) continued to improve the understanding of its Pilbara iron ore project (PIOP) in Western Australia and carried out work to provide materials necessary for the ongoing prefeasibility study. The Company also decided to increase its focus on iron ore by deciding to divest interest in its non-iron ore projects. The Company's financial position was strengthened by carrying out a capital raising which saw cash in hand at the end of the year of \$61.0 million.

Early in the half, a scoping study into the feasibility of mining at FMS' PIOP was completed by Australian Mining Consultants (AMC). This study concluded that, given the size of the resource, the PIOP has the potential to be mined economically over a long period. As a result, a Prefeasibility study was commissioned and after a review of engineering consultants, WorleyParsons were appointed to conduct the study on FMS' behalf. The study is expected to be complete by the end of the third quarter of 2010.

An active reverse-circulation drilling program continued on the PIOP throughout most of the half year with a final tally of 721 holes for 35,480 metres completed. An updated Global Inferred Resource was also released during the half which, at a 50.0% iron cut off, totaled 511 million tonnes at 55.4% iron. Much of the drilling later in the half focused on defining a JORC compliant Indicated Resource for the Delta Deposit located in the Northeast corner of the Blacksmith E47/882 tenement. The Delta Deposit had been proposed by AMC as the most suitable area in which to commence mining. Results of this work were planned for release during the first quarter of 2010.

As well as resource definition a program of metallurgical sampling was undertaken to define ore characteristics and determine the composition of potential products as part of the Prefeasibility Study. The program consisted of the drilling of 32 PQ diameter (8.3 cm) diamond drill holes for a total of 1570 metres. These holes were geologically logged in detail and sent for metallurgical testwork in Perth. This program will also provide samples for beneficiation studies. Results of this work are expected to become gradually available during the first half of 2010. At the time of writing, the Prefeasibility program remains on track, on time and within budget.

At the AGM on the 6 November, the Chairman announced that FMS intended to divest its non-core diamond and phosphate exploration assets by way of an initial public offering into a new company – Flinders Exploration Limited (FEX). The spinoff will be undertaken by a series of Joint Ventures and is anticipated to raise up to \$10 million, depending on market conditions. The spinoff will allow FMS to focus on its PIOP project while retaining some exposure to its non-iron assets. During the half, FMS received some encouraging microdiamond results from samples of new kimberlites from the Eurelia area of South Australia which are several times higher than any previously recorded and justify a program of bulk sampling for macrodiamonds.

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

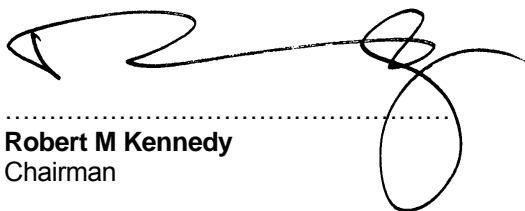
Review of Operations (Cont'd)

During the fourth quarter of 2009, the Company carried out a capital raising totalling \$52.8 million. The funds are designed to complete the PIOP Prefeasibility study and, if the Prefeasibility study is positive, to commence funding a Bankable Feasibility Study. The capital raising consisted of an initial placement to sophisticated and professional investors of 160 million fully paid shares at \$0.145 per share which raised \$23.2 million. This was followed by a fully underwritten 1 for 7 non-renounceable rights issue at \$0.13 per share which raised \$29.6 million. The raising was managed, and the rights issue underwritten by Euroz Securities Limited with Adelaide Equity Partners acting as advisors to FMS. The raising resulted in a total of 338 million new shares being issued, the number of shares on issue increasing to 1,819 million and, at the end of the year, available cash of \$61.0 million.

Auditor's Independence Declaration

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

Signed in accordance with a resolution of the Directors.



.....

Robert M Kennedy
Chairman

Signed at Adelaide this 11th day of March 2010

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

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Flinders Mines Limited for the half-year ended 31 December 2009, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Adelaide on this 11th day of March 2010

FLINDERS MINES LIMITED
ACN 091 118 044

STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	31 December 2009	31 December 2008
	\$	\$
Interest Revenue	623,809	542,838
Marketing expenses	(124,640)	(50,395)
Administrative expense	(1,484,628)	(1,084,018)
Finance costs	(3,943)	(2,578)
Exploration expenditure not capitalised	(205,427)	(165,216)
	<hr/>	<hr/>
Profit / (loss) before income tax	(1,194,829)	(759,369)
	<hr/>	<hr/>
Income tax expense	(848,316)	(68,645)
	<hr/>	<hr/>
Profit / (Loss) for the period attributable to shareholders of the company	(2,043,145)	(828,014)
	<hr/>	<hr/>
Other comprehensive income		
Revaluation of available for sale assets	96,167	(1,633,900)
	<hr/>	<hr/>
Total comprehensive income for the period	(1,946,978)	(2,461,914)
	<hr/>	<hr/>
Basic earnings / (loss) per share (cents)	(0.135)	(0.071)
Diluted earnings / (loss) per share (cents)	(0.135)	(0.071)

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

FLINDERS MINES LIMITED
ACN 091 118 044

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

	31 December 2009	30 June 2009
	\$	\$
CURRENT ASSETS		
Cash & cash equivalents	61,023,456	20,522,605
Trade & other receivables	1,417,120	1,024,792
Other current assets	27,000	27,000
TOTAL CURRENT ASSETS	<u>62,467,576</u>	<u>21,574,397</u>
NON-CURRENT ASSETS		
Property, plant & equipment	1,537,536	889,595
Investments accounted for using the equity method	1	1
Exploration & evaluation expenditure	32,206,596	24,937,304
Financial assets	505,167	394,000
TOTAL NON-CURRENT ASSETS	<u>34,249,300</u>	<u>26,220,900</u>
TOTAL ASSETS	<u>96,716,876</u>	<u>47,795,297</u>
CURRENT LIABILITIES		
Trade & other payables	737,150	753,895
Short-term provisions	116,534	75,302
TOTAL CURRENT LIABILITIES	<u>853,684</u>	<u>829,197</u>
TOTAL LIABILITIES	<u>853,684</u>	<u>829,197</u>
NET ASSETS	<u>95,863,192</u>	<u>46,966,100</u>
EQUITY		
Issued capital	105,484,924	54,663,777
Reserves	321,853	202,763
Retained earnings	(9,943,585)	(7,900,440)
TOTAL EQUITY	<u>95,863,192</u>	<u>46,966,100</u>

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

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Issued Capital \$	Asset Revaluation Reserve \$	Share Option Reserve \$	Retained Earnings \$	Total \$
Balance at 1 July 2008	33,068,413	122,500	95,350	(3,965,132)	29,321,131
Comprehensive Income for the period	-	(1,633,900)	-	(828,014)	(2,461,914)
Shares issued during the period	9,856,935	-	-	-	9,856,935
Balance at 31 December 2008	42,925,348	(1,511,400)	95,350	(4,793,146)	36,716,152
Balance at 1 July 2009	54,663,777	-	202,763	(7,900,440)	46,966,100
Comprehensive Income for the period	-	96,167	-	(2,043,145)	(1,946,978)
Options issued during the period	-	-	22,923	-	22,923
Shares issued during the period	52,800,550	-	-	-	52,800,550
Transaction Costs (net of tax)	(1,979,403)	-	-	-	(1,979,403)
Balance at 31 December 2009	105,484,924	96,167	225,686	(9,943,585)	95,863,192

The statement of changes in equity is to be read in conjunction with the notes to the financial report.

FLINDERS MINES LIMITED
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STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	31 December 2009	31 December 2008
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	378,804	417,490
Tax receipts received	162,645	-
Payments to suppliers and employees	(1,779,197)	(668,376)
	<u>(1,237,748)</u>	<u>(250,886)</u>
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(744,512)	(229,653)
Payment for exploration activities	(7,474,720)	(8,162,087)
Increase in loan to related party/investment in subs	(15,000)	(262,500)
	<u>(8,234,232)</u>	<u>(8,654,240)</u>
Net cash provided by (used in) investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	52,800,550	10,017,108
Capital raising costs	(2,827,719)	(160,173)
	<u>49,972,831</u>	<u>9,856,935</u>
Net cash provided by (used in) financing activities		
Net increase in cash held	40,500,851	951,809
Cash at beginning of period	20,522,605	13,925,018
	<u>61,023,456</u>	<u>14,876,827</u>
Cash at end of financial period		

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

NOTES TO THE FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 1 - BASIS OF PREPARATION

Reporting entity

Flinders Mines Limited (the "Company") is a company domiciled in Australia. The financial report of the Company is as at and for the half year ended 31 December 2009.

The annual financial report of the entity as at and for the year ended 30 June 2009 is available upon request from the Company's registered office at 62 Beulah Road, Norwood SA or at www.flindersmines.com.

Statement of compliance

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2009 and any public announcements made by Flinders Mines Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies applied by the entity in this half-year report are consistent with those in the June 2009 financial report.

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

Reporting Basis and Conventions

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

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 interim period. Disclosures required by these Standards that are deemed material have been included in this financial report 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 this financial report 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;
- 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.

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 Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

NOTES TO THE FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 2 - ISSUED CAPITAL

	31 December 2009	30 June 2009
	\$	\$
1,819,349,571 (30 June 2009: 1,430,989,208) fully paid ordinary shares	<u>\$105,484,924</u>	<u>\$54,663,777</u>
Ordinary Shares	Number	Number
At the beginning of the period	1,430,989,208	1,109,678,754
Shares issued during the year		321,310,454
- 2 September 2009	115,000	
- 22 September 2009	110,000	
- 4 November 2009	305,000	
- 6 November 2009	411,667	
- 9 November 2009	160,000,000	
- 4 December 2009	227,418,696	
At reporting date	<u>1,819,349,571</u>	<u>1,430,989,208</u>

- On 2 September 2009 115,000 shares were issued at \$0.045 as a result of the exercise of options
- On 22 September 2009 110,000 shares were issued at \$0.045 as a result of the exercise of options
- On 4 November 2009 305,000 shares were issued at \$0.045 as a result of the exercise of options
- On 6 November 2009 411,667 shares were issued at \$0.045 as a result of the exercise of options
- On 9 November 2009 160,000,000 shares were issued at \$0.145 as a placement
- On 4 December 2009 227,418,696 shares were issued at \$0.13 as a result of a rights issue

Ordinary shares participate in dividends and the proceeds on winding up of the entity in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTE 3 - CONTINGENT LIABILITIES

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

NOTE 4 - SEGMENT REPORTING

Identification of reportable segments

Flinders Mines Limited has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director (chief operating decision maker) in assessing performance and determining the allocation of resources.

Flinders Mines Limited is managed primarily on the basis of geological 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

NOTES TO THE FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 4 - SEGMENT REPORTING (Cont'd)

Operations

Flinders Mines Limited has exploration operations in diamonds, phosphate and two styles of iron mineralisation. The capital expenditure 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.

	Pilbara Iron Ore	Canegrass Magnetite	Diamonds and Phosphate	Other	Total
Period ended 31 December 2009	\$	\$	\$	\$	\$
Segment Assets	17,323,769	1,577,384	12,014,372	1,291,070	32,206,596
Segment Asset increases for the period					
- Capital Expenditure	6,177,837	256,719	812,054	22,682	7,269,292
- Acquisitions		-	-	-	-
	<u>6,177,837</u>	<u>256,719</u>	<u>812,054</u>	<u>22,682</u>	<u>7,269,292</u>
Total Exploration and Evaluation					32,206,596
Unallocated Assets					<u>64,510,280</u>
Total Assets					<u>96,716,876</u>

	Pilbara Iron Ore	Canegrass Magnetite	Diamonds and Phosphate	Other	Total
Period ended 30 June 2009	\$	\$	\$	\$	\$
Segment Assets	11,145,933	1,320,666	11,202,318	1,268,388	24,937,304
Segment Asset increases for the period					
- Capital Expenditure	7,055,316	20,666	1,941,568	45,123	9,062,673
- Acquisitions	-	1,300,000	-	-	1,300,000
	<u>7,055,316</u>	<u>1,320,666</u>	<u>1,941,568</u>	<u>45,123</u>	<u>10,362,673</u>
Total Exploration and Evaluation					24,937,304
Unallocated Assets					<u>22,857,993</u>
Total Assets					<u>47,795,297</u>

NOTE 5 - EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between 31 December 2009 and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future years.

NOTES TO THE FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 6 - SHARE BASED PAYMENTS

The following share-based payment arrangements existed at 31 December 2009.

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

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

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

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

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 2009. The options hold no voting or dividend rights.

	2009		2008	
	Number of options	Weighted average \$	Number of options	Weighted average \$
Outstanding at beginning of the year	5,329,166	0.040	368,207,139	0.100
Granted	480,000	0.055	0	0.000
Exercised	(941,667)	0.038	(93,973,921)	0.010
Expired	0	0	(270,500,718)	0.010
Outstanding at end of the year	<u>4,867,499</u>	<u>0.041</u>	<u>3,732,500</u>	<u>0.032</u>
Exercisable at year end	<u>4,867,499</u>	<u>0.041</u>	<u>3,732,500</u>	<u>0.032</u>

The options outstanding at 31 December 2009 had a weighted average exercise price of \$0.041 and a weighted average remaining contractual life of 35 months. Exercise price is \$0.055 for options outstanding at 31 December 2009

The weighted average fair value of the options granted during the year was \$0.055. This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$0.055
Weighted average life of the options	5 Years
Underlying share price	\$0.083
Expected share price volatility	41.55%
Risk free interest rate	5.23%

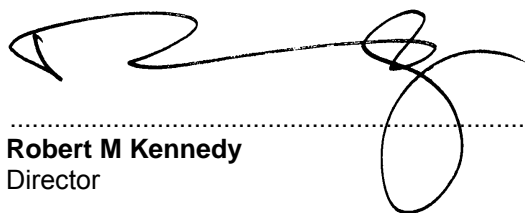
Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate. The life of the options is based on the historical exercise patterns, which may not eventuate in the future. Included under "Administrative Expense" in the income statement is \$22,923 which relates to share-based payments in accordance with the Company Employee Share Option Plan.

DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

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

1. The financial statements and notes, as set out on pages 5 to 12, are in accordance with the Corporations Act 2001 including:
 - (a) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) Giving a true and fair view of the company's financial position as at 31 December 2009 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



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Robert M Kennedy
Director

Signed at Adelaide this 11th day of March 2010

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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 (“Company”), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors’ declaration

Directors’ responsibility for the half-year financial report

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

Auditor’s responsibility

Our responsibility is to express a conclusion on the 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 Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the financial position as at 31 December 2009 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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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF FLINDERS MINES LIMITED Cont**

Auditor's responsibility Cont

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

Independence

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

Conclusion

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

- a giving a true and fair view of the Company's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Adelaide on this 11th day of March 2010