



**Flinders Mines Limited**

ABN 46 091 118 044

**Financial report  
for the year ended 30 June 2012**

# **Flinders Mines Limited** ABN 46 091 118 044

## **Financial report - 30 June 2012**

### **Contents**

|                                                | Page |
|------------------------------------------------|------|
| Directors' report                              | 1    |
| Auditor's Independence Declaration             | 12   |
| Corporate governance statement                 | 13   |
| Financial statements                           |      |
| Consolidated statement of comprehensive income | 21   |
| Consolidated statement of financial position   | 22   |
| Consolidated statement of changes in equity    | 23   |
| Consolidated statement of cash flows           | 24   |
| Notes to the consolidated financial statements | 25   |
| Directors' declaration                         | 58   |
| Independent auditor's report to the members    | 60   |

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

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

Flinders Mines Limited  
Level 1, 136 Frome Street  
Adelaide SA 5000

Registered postal address is:

Flinders Mines Limited  
PO Box 3065  
Rundle Mall  
Adelaide SA 5000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 1 to 11, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 20 September 2012. 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](http://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, or during, the year ended 30 June 2012.

### Directors

The following persons were directors of the Parent Entity from the start of the financial year to the date of this report, unless otherwise stated:

Robert Michael Kennedy (Non-executive chairman)  
Gary David Sutherland (Managing Director)  
John David Cooper (Non-executive director)  
Kevin John Malaxos (Non-executive director)  
Ewan John Vickery (Non-executive director)  
Gregory Mornington May (Alternate director for E J Vickery)  
Nicholas John Smart (Alternate director for R M Kennedy)

### Principal activities

The principal activities of the Group during the financial year were mineral exploration and development.

### Dividends - Flinders Mines Limited

There were no dividends declared or paid during the year (2011: Nil).

### Operating results and financial position

The net result of operations for the financial year was a loss of \$4,936,852 (2011: \$7,964,256).

The net assets of the Group have decreased by \$4,252,101 during the financial year from \$81,311,953 at 30 June 2011 to \$77,059,852 at 30 June 2012.

### Review of operations

The 2012 financial year has been a significant one for Flinders Mines Limited (FMS) with respect to both corporate level and project based activities.

During the year Flinders Mines Limited commenced a strategic review process that resulted in Flinders Mines Limited and Magnitogorsk Iron & Steel Works OJSC (MMK) executing a Scheme Implementation Agreement (SIA) to effect the acquisition by MMK of 100% of the issued shares in FMS under a Scheme of Arrangement (Scheme). MMK offered to acquire 100% of the FMS issued shares at A\$0.30 cash per share. This offer was taken to shareholders who overwhelmingly supported the takeover. Legal proceedings by a minority MMK shareholder commenced in early April, resulting in a series of Russian legal proceedings extending beyond the Quit Date of the SIA. MMK elected to terminate the SIA on July 2nd 2012.

At our flagship project, the Pilbara Iron Ore Project (PIOP), the JORC compliant resource increased to 917 million tonnes (Mt) at 55% Fe, 23% higher than the previous year. In all, a total of 2,968 holes for 150,199 metres have now been drilled on the PIOP.

Further to this, a BID exploration target of 110 to 160Mt was announced for the Pilbara Iron Ore project which has the potential to further increase the global resource to well over 1 billion tonnes of Iron Ore.

The base case 15Mtpa PIOP DFS study has continued with progress made on a number of critical path activities. This has included mine planning, metallurgical test work, marketing activities, native title, hydrogeological studies and progress of environmental approvals. Of significant note is the signing of a Native Title Mining Agreement with the Wintawari Guruma Aboriginal Corporation (Eastern Guruma) and the granting of the Mining Lease. These are significant milestones in the company's progress to becoming a significant producer of iron ore.

A marketing program that has included engagement of potential customers is well under way. To date the marketing team has met in excess of 30 Chinese steel mills and received an overwhelmingly positive response to both the potential products and a new entrant into the iron ore market. To support this high level of customer interest Flinders Mines Limited has commenced a sinter testwork program at the University of Science & Technology in Beijing that will further support the acceptance of Flinders products by these mills.

During the financial year a maiden resource was also announced for the Canegrass Magnetite Project. Drilling completed late in 2010 targeted magnetite iron mineralisation and a maiden Inferred Mineral Resource has revealed significant high grade vanadium mineralisation in association with magnetite iron mineralisation. The Mineral Resource for the vanadium mineralisation is 107 Mt @ 0.62% V<sub>2</sub>O<sub>5</sub>. This Mineral Resource is a subset of the larger iron Mineral Resource of 216Mt @ 25.4% Fe. Both Mineral Resources are contained within the same geological units.

### **Significant changes in the state of affairs**

On 25 November 2011, the Company entered into a Scheme Implementation Agreement (SIA) with Magnitogorsk Iron and Steel Works OJSC (MMK), under which MMK offered to acquire all of the shares in Flinders at \$0.30 per share, pursuant to a scheme of arrangement (Scheme). The details of the offer were put to all shareholders at a Scheme Meeting on 30 March 2012, at which the Scheme received the necessary shareholder approvals, receiving overwhelming support of over 90% of votes cast.

Prior to the Scheme receiving the final approval of the Australian Federal Court, Flinders was advised by MMK that a minority shareholder of MMK had sought and been granted injunctive relief in the Arbitration Court of Chelyabinsk, Russian Federation, under which MMK was restrained from implementing its Directors' resolutions with respect to the acquisition of 100% of Flinders.

Following a series of disappointing and frustrating delays, denied appeals and adjournments by the Russian courts, it became apparent that a legal solution would not be possible until after the Quit Date of the SIA, being 30 June 2012. Due to the uncertainties and delays and the inability of MMK to complete the transaction, MMK notified Flinders that it was terminating the SIA on 2 July 2012 and as a consequence of MMK's termination, the SIA effectively ceased.

There were no accounting consequences of the Scheme and its ultimate failure to proceed. The restrictions contained in the SIA and the lengthy delays caused by the legal actions in Russia meant that Flinders reduced its operations during the period from November 2011 to early July 2012. Whilst Flinders curtailed its exploration activities and restricted its Definitive Feasibility Study endeavours to only those areas critical to the ongoing development path of the Pilbara Iron Ore Project, thereby doing its utmost to preserve its cash reserves, the Company concludes that there was no significant change in the state of affairs.

### **Events subsequent to balance date**

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

### **Future developments, prospects and business strategies**

#### **PIOP**

Flinders' Pilbara Iron Ore Project remains unique amongst independent Pilbara based iron ore developers offering multiple infrastructure and project development options, an ability to deliver 15 Mtpa of high quality ore, strong project economics and a large, contiguous resource position.

Over FY2013, Flinders' focus will be on the strategic development of the PIOP. Flinders has resumed dialogue with counterparties, and a full data room will be made available to allow those groups interested in the strategic development of the PIOP to conduct due diligence as required.

The scope of development will include:

- Infrastructure access
- Project financing
- Ore marketing and off-take arrangements
- Joint venture and corporate proposals

#### **CANEGRASS**

A targeted exploration program on Canegrass tenements will commence in H2 FY13.

### **Environmental regulation**

The Group's operations are subject to significant environmental regulation under both Commonwealth and relevant State legislation in relation to the discharge of hazardous waste and materials arising from any exploration or mining activities and development conducted by the Group on any of its tenements. The Group 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.

*Independent Non-executive Chairman*

#### **Experience and expertise**

Mr Kennedy has been non-executive chairman of Flinders Mines Limited since December 2001. He is a chartered accountant and a consultant to Kennedy & Co, Chartered Accountants, a firm he founded. Mr Kennedy brings to the Board his expertise and extensive experience as chairman and non-executive director of a range of listed public companies in the resources sector.

He conducts the review of the Board including the Managing Director in his executive role. Mr Kennedy leads the development of strategies for the development and future growth of the Company. Apart from his attendance at Board and Committee meetings Mr Kennedy leads the Board's external engagement of the Company, meeting with Government, investors and is engaged with the media. He is a regular attendee of Audit Committee functions of the major accounting firms and is a regular presenter on topics relating to directors with the AICD and the CSA. During the year he attended the Masterclass of the Australian Institute of Directors with members of top ASX200 company boards.

In assessing Mr Kennedy's independence, the Board (excluding Mr Kennedy), took into account his stamina, his ability to think independently across a wide range of issues and his relentless availability, now enhanced by his resignation from the Somerton Energy Ltd Board and his not seeking re-election to the Board of Beach Energy Ltd. Whilst Mr Kennedy has been appointed to a number of Resource Industry Boards, due to his extensive knowledge of the industry, the time required across these companies in no way impedes on his dedication to his role as Chairman of the Board. In taking all of these issues into account, the Board (excluding Mr Kennedy), were unanimous in declaring Mr Kennedy as independent.

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 2006), Maximus Resources Limited (since 2004), Monax Mining Limited (since 2004) and Ramelius Resources Limited (since 2003). Mr Kennedy was previously a director of ASX listed company Somerton Energy Limited (from April 2010 until May 2012).

#### **Special responsibilities**

Chairman of the Board.

Chairman of the Nominations and Remuneration Committee.

Chairman of the Corporate Development Committee.

Member of the Audit Committee.

#### **Interests in shares, options and rights**

31,500,000 ordinary shares in Flinders Mines Limited.

**Gary David Sutherland** BAppSc (Hons), AAICD. *Managing Director.*

#### **Experience and expertise**

A director since April 2011, Mr Sutherland has 26 years experience in the resources industry. Over the last decade Mr Sutherland has filled senior leadership roles in both operations and greenfield/brownfield projects with BHP Billiton (including more than five years as General Manager - Processing), Pasminco and CRA (now Rio Tinto). He has worked across a range of commodities including iron ore, copper, lead, zinc, gold, silver and uranium.

#### **Special responsibilities**

Managing Director.

Member of the Risk Committee.

#### **Interests in shares, options and rights**

115,000 ordinary shares in Flinders Mines Limited.

300,000 options over ordinary shares in Flinders Mines Limited.

8,403,700 rights to acquire ordinary shares in Flinders Mines Limited.

**Information on directors (continued)**

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

**Experience and expertise**

A director since September 2010, Mr Cooper has over 36 years experience in the Construction and Engineering sector in Australia and overseas and has provided consulting services to major projects for a number of years.

Mr Cooper was previously a member of the Murray and Roberts International Board, overseeing its operations globally and was a Non-Executive Director of Clough Engineering after having served in the role as Interim CEO, during which time he successfully restructured the Clough organisation.

Mr Cooper's experience includes five years as Managing Director and Chief Executive Officer of engineering and project management organisation CMPS&F and over twenty years with Concrete Constructions, where he held the position of General Manager and was on the Group Board.

He is as Fellow of the Institute of Company Directors, a Fellow of the Australian Institute of Management and a Fellow of the Institute of Engineers.

Mr Cooper is also a Non-Executive Director of ASX listed companies Southern Cross Electrical Engineering Limited (Director since 2007, Chairman since 2011), NRW Holdings Limited (since 2011), Neptune Marine Services Limited (since April 2012) and QR National Limited (since April 2012). Mr Cooper was previously a director of listed company Clough Limited (2006 to 2010).

**Special responsibilities**

Member of the Audit Committee.

Member of the Risk Committee.

Member of the Corporate Development Committee.

Chairman of the Corporate Governance Committee.

**Interests in shares, options and rights**

1,200,000 ordinary shares in Flinders Mines Limited.

**Kevin John Malaxos BEng Mining Engineering.** *Non-executive Director.*

**Experience and expertise**

A director since December 2010, Mr Malaxos, a mining engineer, has over 26 years experience in the resources sector in senior management and executive roles across a suite of commodities including gold, nickel, iron ore, silver, lead, zinc and chromium. He has managed surface and underground mining operations and brings a wealth of experience in project evaluation and development, project approval and Government liaison.

Mr Malaxos' previous roles include CEO for Mt Gibson Mining (MGX) and COO of listed iron ore developer Centrex Metals Limited (CXM), where he was responsible for project development, project approvals and community and government consultation.

Mr Malaxos is also the Managing Director of ASX-listed company Maximus Resources Limited (since December 2010).

**Special responsibilities**

Member of the Corporate Governance Committee.

**Interests in shares, options and rights**

Nil.

**Ewan John Vickery L.L.B.** *Non-executive director.*

**Experience and expertise**

A director since June 2001, Mr Vickery is a corporate and business lawyer with over 31 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.

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 and Life Member of Australian Mining and Petroleum Law Association (AMPLA Limited).

Mr Vickery is a Non-Executive Director of ASX listed company Maximus Resources Limited (since 2004) and was previously a Non-Executive Director of ERO Mining Limited (2006 to 2011).

**Special responsibilities**

Chairman of the Audit Committee.

Chairman of the Risk Committee.

Member of Nominations and Remuneration Committee.

**Information on directors (continued)**

Member of the Corporate Governance Committee.

**Interests in shares, options and rights**

4,700,000 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 General Counsel 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, options and rights**

633,571 ordinary shares in Flinders Mines Limited.

**Nicholas John Smart** *Alternate director for R M Kennedy (non-executive).*

**Experience and expertise**

An alternate director since December 2009, Mr Smart has held positions as a general manager in Australia and internationally. Previously a full Associate Member of the Sydney Futures Exchange and adviser with a national share broking firm, with over 25 years experience in the corporate arena including capital raising for private and listed companies. Other experience includes startup companies in technology development including commercialisation of the Synroc process for safe storage of high level nuclear waste, controlled temperature and atmosphere transport systems and the beneficiation of low rank coals. He is an alternate director for Maximus Resources Limited (since May 2005). Mr Smart currently consults to various public and private companies.

**Interests in shares, options and rights**

838,095 ordinary shares in Flinders Mines Limited.

**Company Secretary**

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

**Experience and expertise**

Mr Godfrey has more than 26 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 Chief Financial Officer since November 2008.

**Interests in shares, options and rights**

338,769 ordinary shares in Flinders Mines Limited.

2,022,300 rights to acquire ordinary shares in Flinders Mines Limited.

**Meetings of directors**

The numbers of meetings of the Group's board of directors and of each board committee held during the year ended 30 June 2012, and the numbers of meetings attended by each director were:

|                         | Full meetings of directors |    | Audit committee |   | Corporate governance committee |   | Nomination and remuneration committee |   | Risk committee |   |
|-------------------------|----------------------------|----|-----------------|---|--------------------------------|---|---------------------------------------|---|----------------|---|
|                         | A                          | B  | A               | B | A                              | B | A                                     | B | A              | B |
| Robert Michael Kennedy  | 19                         | 20 | 2               | 2 | -                              | - | 2                                     | 2 | -              | - |
| Gary David Sutherland   | 20                         | 20 | -               | - | -                              | - | -                                     | - | 1              | 1 |
| John David Cooper       | 20                         | 20 | 2               | 2 | 1                              | 1 | -                                     | - | 1              | 1 |
| Kevin John Malaxos      | 20                         | 20 | -               | - | 1                              | 1 | -                                     | - | -              | - |
| Ewan John Vickery       | 19                         | 20 | 2               | 2 | 1                              | 1 | 2                                     | 2 | 1              | 1 |
| Gregory Mornington May* | -                          | 20 | -               | - | -                              | - | -                                     | - | -              | - |
| Nicholas John Smart*    | -                          | 20 | -               | - | -                              | - | -                                     | - | -              | - |

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

\* = Alternate director

#### **Indemnification and insurance of officers**

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

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

#### **Insurance premiums**

Since the end of the previous year the Group has paid insurance premiums of \$88,221 to insure the directors and officers in respect of directors' and officers' liability and legal expenses insurance contracts. In addition, a further premium of \$122,609 was paid for run-off cover over the next four years for officers' liability and legal expenses.

#### **Proceedings on behalf of the Group**

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

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

#### **Non-audit services**

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of 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 or payable to the external auditors of the Parent Entity, its related practices or non-related audit firms during the year ended 30 June 2012.

## **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 Group's policy for determining the nature and amounts of emoluments of board members and senior executive officers of the Group 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 Incentive Rights Plan approved by shareholders that enables the Board to offer eligible employees rights to acquire ordinary fully paid shares in the Company. Under the terms of the Plan, rights to acquire ordinary fully paid shares at no cost may be offered to the Company's eligible employees as 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 a long-term 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, Mr Sutherland were formalised in a contract of employment. The base salary as set out in the employment contract is reviewed regularly. The Managing Director's contract may be terminated on one month's notice by either party. The Company may terminate the contract without notice in serious instances of misconduct.

### **B Details of remuneration**

This report details the nature and amount of remuneration for each key management person of the Group. The names and positions held by directors and key management personnel of the Group during the financial year are:

- Mr R M Kennedy - Chairman, non-executive
- Mr G D Sutherland - Managing Director
- Mr J D Cooper - Director, non-executive
- Mr K J Malaxos - Director, non-executive
- Mr E J Vickery - Director, non-executive
- Mr G M May - Alternate director for E J Vickery
- Mr N J Smart - Alternate director for R M Kennedy
- Mr N J Corlis - General Manager - Business Development
- Mr M Rapaic - General Manager - Project Development
- Mr M Anstey - General Manager - HSEC & HR
- Mr D W Godfrey - Chief Financial Officer & Company Secretary

**Remuneration report - audited (continued)**

**B Details of remuneration (continued)**

**Key management personnel of the Group**

**2012**

| Name                                               | Short-term employee benefits |                  | Post-employment benefits | Share-based payments |                | Total            |
|----------------------------------------------------|------------------------------|------------------|--------------------------|----------------------|----------------|------------------|
|                                                    | Directors' fees<br>\$        | Salary<br>\$     | Super-annuation<br>\$    | Options<br>\$        | Rights<br>\$   |                  |
| Robert Michael Kennedy                             | 165,138                      | -                | 14,862                   | -                    | -              | 180,000          |
| Gary David Sutherland <sup>^</sup>                 | -                            | 524,999          | 25,000                   | -                    | 318,022        | 868,021          |
| John David Cooper                                  | 82,569                       | -                | 7,431                    | -                    | -              | 90,000           |
| Kevin John Malaxos*                                | 90,000                       | -                | -                        | -                    | -              | 90,000           |
| Ewan John Vickery                                  | 82,569                       | -                | 7,431                    | -                    | -              | 90,000           |
| Gregory Mornington May                             | -                            | -                | -                        | -                    | -              | -                |
| Nicholas John Smart                                | -                            | -                | -                        | -                    | -              | -                |
| Nicholas John Corlis <sup>^</sup>                  | -                            | 267,644          | 24,088                   | -                    | 82,236         | 373,968          |
| Miro Rapaic <sup>^</sup>                           | -                            | 279,999          | 25,200                   | -                    | 78,022         | 383,221          |
| Michael Anstey <sup>^</sup>                        | -                            | 249,999          | 22,500                   | -                    | 66,480         | 338,979          |
| David Wayne Godfrey <sup>^</sup>                   | -                            | 211,926          | 19,073                   | -                    | 63,139         | 294,138          |
| <b>Total key management personnel compensation</b> | <b>420,276</b>               | <b>1,534,567</b> | <b>145,585</b>           | <b>-</b>             | <b>607,899</b> | <b>2,708,327</b> |

\* Directors' fees for Mr Malaxos were paid to a related party of the director.

<sup>^</sup> During the year selected executives were granted incentive rights which have a three year vesting period and performance conditions. In accordance with the requirements of the Australian Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The fair value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individuals may ultimately realise should the rights vest. The fair value of the rights as at the date of their grant has been determined in accordance with the Employee Incentive Rights Plan as set out in note 29.

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

**Key management personnel of the Group**

**2011**

| Name                                               | Short-term employee benefits |                  | Post-employment benefits | Share-based payments |                | Total            |
|----------------------------------------------------|------------------------------|------------------|--------------------------|----------------------|----------------|------------------|
|                                                    | Directors' fees<br>\$        | Salary<br>\$     | Super-annuation<br>\$    | Options<br>\$        | Rights<br>\$   |                  |
| Robert Michael Kennedy                             | 165,138                      | -                | 14,862                   | -                    | -              | 180,000          |
| Gary David Sutherland <sup>^</sup>                 | -                            | 370,147          | 25,000                   | -                    | 124,323        | 519,470          |
| John David Cooper                                  | 66,267                       | -                | 5,964                    | -                    | -              | 72,231           |
| Kevin John Malaxos*                                | 48,115                       | -                | -                        | -                    | -              | 48,115           |
| Ewan John Vickery                                  | 82,569                       | -                | 7,431                    | -                    | -              | 90,000           |
| Gregory Mornington May                             | -                            | -                | -                        | -                    | -              | -                |
| Nicholas John Smart                                | 5,000                        | -                | -                        | -                    | -              | 5,000            |
| Kevin John Anson Wills**                           | -                            | 346,977          | 7,569                    | -                    | -              | 354,546          |
| Nicholas John Corlis <sup>^</sup>                  | -                            | 260,427          | 23,439                   | -                    | 56,434         | 340,300          |
| Miro Rapaic <sup>^</sup>                           | -                            | 244,194          | 21,977                   | -                    | 53,650         | 319,821          |
| Michael Anstey <sup>^</sup>                        | -                            | 212,333          | 19,110                   | 6,653                | 44,718         | 282,814          |
| David Wayne Godfrey <sup>^</sup>                   | -                            | 206,880          | 18,619                   | 7,290                | 44,689         | 277,478          |
| <b>Total key management personnel compensation</b> | <b>367,089</b>               | <b>1,640,958</b> | <b>143,971</b>           | <b>13,943</b>        | <b>323,814</b> | <b>2,489,775</b> |

\* Directors' fees for Mr Malaxos were paid to a related party of the director.

\*\* A retirement allowance was paid to Dr Wills upon his retirement from the Board.

## Remuneration report - audited (continued)

### B Details of remuneration (continued)

<sup>^</sup> During the year selected executives were granted incentive rights which have a three year vesting period and performance conditions. In accordance with the requirements of the Australian Accounting Standards, remuneration includes a proportion of the notional value of equity compensation granted or outstanding during the year. The fair value of equity instruments which do not vest during the reporting period is determined as at the grant date and is progressively allocated over the vesting period. The amount included as remuneration is not related to or indicative of the benefit (if any) that individuals may ultimately realise should the rights vest. The fair value of the rights as at the date of their grant has been determined in accordance with the Employee Incentive Rights Plan as set out in note 29.

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

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name                  | Fixed remuneration |           | At risk - STI* |           | At risk - LTI** |           |
|-----------------------|--------------------|-----------|----------------|-----------|-----------------|-----------|
|                       | 2012<br>%          | 2011<br>% | 2012<br>%      | 2011<br>% | 2012<br>%       | 2011<br>% |
| Gary David Sutherland | 63                 | 76        | -              | -         | 37              | 24        |
| Nicholas John Corlis  | 78                 | 83        | -              | -         | 22              | 17        |
| Miro Rapaic           | 80                 | 83        | -              | -         | 20              | 17        |
| Michael Anstey        | 80                 | 82        | -              | -         | 20              | 18        |
| David Wayne Godfrey   | 78                 | 81        | -              | -         | 22              | 19        |

\* Short-term incentives (STI) include cash incentive payments (bonuses) linked to company and/or individual performance.

\*\* Long-term incentives (LTI) include equity grants issued via the Company's Employee Share Option and Incentive Rights Plans. These plans are designed to provide long-term incentives for executives to deliver long-term shareholder returns.

### C Service agreements

During the financial year, the Company reviewed the employment agreement of Mr Sutherland 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 one month's notice by either party. Messrs Kennedy, Vickery, Cooper and Malaxos are engaged as non-executive directors without formal employment agreements.

Remuneration and other terms of employment of group executives (Managing Director's direct reports) are formalised in service contracts. Each of the agreements is similar in nature and provides for the level of remuneration and other benefits relevant to each executive's role and responsibilities. Either party may terminate the agreement on the provision of an agreed notice period, or if terminated by the employer, a payment in lieu of notice. On termination, executives are entitled to receive statutory entitlements of accrued annual and long service leave plus superannuation benefits.

Executive performance and remuneration packages are reviewed on a regular basis by the Nominations and Remuneration Committee. The review process includes consideration of individual performance as well as overall performance of the group. To ensure the Nominations and Remuneration Committee is fully informed, it seeks external remuneration advice. The Board has appointed McDonald & Company (Australasia) Pty Ltd (McDonald) as a remuneration advisor to the Company. McDonald provides the Company with market data in relation to Managing Director and Executive remuneration and advice on remuneration trends for the Company's particular industry sector.

### D Share-based compensation

#### Employee Incentive Rights Plan

The Company has an Employee Incentive Rights Plan approved by shareholders that enables the Board to offer eligible employees rights to acquire ordinary fully paid shares in the Company. Under the terms of the Plan, rights to acquire ordinary fully paid shares at no cost may be offered to the Company's eligible employees as determined by the Board in accordance with the terms and conditions of the Plan. During the year 5,304,700 rights were issued to employees at a value of \$0.115 each, totalling \$610,041. This accounting value does not represent actual cash payments to the employees, but is a recognition of the value of the rights at grant date, over the vesting period.

The issues have a three year vesting period and are based on personal criteria, including continuity of service for the full vesting period and Company performance criteria including the Company's Total Shareholder Return over the vesting period relative to that of a Comparator Group of companies (see below).

**Remuneration report - audited (continued)**

**D Share-based compensation (continued)**

The companies in the Comparator Group for FY2012 are as follows:

- |                                           |                                            |
|-------------------------------------------|--------------------------------------------|
| • Adamus Resources Limited                | • Alcyone Resources Limited                |
| • Alkane Resource Limited                 | • Arafura Resources Limited                |
| • Aspire Mining Limited                   | • Base Resources Limited                   |
| • BC Iron Limited                         | • Blackgold International Holdings Limited |
| • Bougainville Copper Limited             | • Centrex Metals Limited                   |
| • Cobar Consolidated Resources Limited    | • Conquest Mining Limited                  |
| • Crusader Resources Limited              | • Discovery Metals Limited                 |
| • Exco Resources Limited                  | • FerrAus Limited                          |
| • Flinders Resources Limited              | • Focus Minerals Limited                   |
| • Galaxy Resources Limited                | • Gold One International Limited           |
| • Grange Resources Limited                | • Highlands Pacific Limited                |
| • Hillgrove Resources Limited             | • Indo Mines Limited                       |
| • Industrial Minerals Corporation Limited | • Integra Mining Limited                   |
| • Iron Ore Holdings Limited               | • Kagara Limited                           |
| • Kangaroo Resources Limited              | • Metals X Limited                         |
| • MHM Metals Limited                      | • Mincor Resources NL                      |
| • Mineral Deposits Limited                | • Murchison Metals Limited                 |
| • Nkwe Platinum Limited                   | • Northern Minerals Limited                |
| • Northern Star Resources Limited         | • Nucoal Resources NL                      |
| • OM Holdings Limited                     | • Panoramic Resources Limited              |
| • Platinum Australia Limited              | • Red 5 Limited                            |
| • Resource & Investments NL               | • Saracen Mineral Holdings Limited         |
| • Sphere Minerals Limited                 | • Summit Resources Limited                 |
| • Tribune Resources Limited               | • White Energy Company Limited             |
| • WPG Resources Limited                   | • YTC Resources Limited                    |

No employee share options or rights were issued to the non-executive directors during the year (2011: Nil).

*Shares issued on exercise of remuneration options*

No shares were issued to directors as a result of the exercise of remuneration options during the financial year (2011: Nil).

*Options granted as remuneration*

No options were granted to directors, key management personnel or employees 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 19 of the financial statements.

*Voting on remuneration report at the Company's last Annual General Meeting*

At the Company's last Annual General Meeting, there were no comments or queries on the remuneration report and a proxy vote of only 6% against the resolution to adopt the remuneration report indicated strong support for the Company's remuneration structure and practices.

*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     | Exercise Price | Number under option |
|----------------------|-----------------|----------------|---------------------|
| 6 March 2008         | 5 March 2013    | \$0.084        | 240,000             |
| 4 February 2009      | 3 February 2014 | \$0.045        | 1,121,666           |
| 26 August 2009       | 26 August 2014  | \$0.055        | 300,000             |
| 11 February 2011     | 30 June 2015    | \$0.085        | 320,000             |
|                      |                 |                | <u>1,981,666</u>    |

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**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

This report is signed and dated in Adelaide on this 20th day of September 2012 and made in accordance with a resolution of the directors.



Robert M Kennedy  
Director

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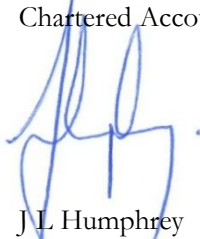
**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF FLINDERS MINES LIMITED**

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 2012, 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*

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP  
Chartered Accountants



J.L. Humphrey  
Partner

Adelaide, 20 September 2012

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## **Corporate governance statement**

The Board of Directors 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 with 2010 Amendments - 2nd Edition issued by the ASX Corporate Governance Council ("ASX Recommendations"). During the year the board formed a Corporate Governance Committee consisting of three non-executive directors, whose objective is to ensure appropriate ethical and corporate governance standards and practices for the Company.

The following statement sets out a summary of the Group'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 each of the financial years ended 30 June 2008 through to 30 June 2012.

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 2012.

### **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 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 and financial reporting, a Risk Committee to deal with the control environment in the area of operational risk and a Corporate Governance Committee to deal with ethical standards and corporate governance practices.

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 Directors 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.

**Principle 1: Lay solid foundations for management and oversight (continued)**

**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 five directors, four of whom, including the Chairman, are independent directors.

The Audit Committee currently consists of three 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 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; and
- 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 and development 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.

The current directors, other than the Managing Director, 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 Nominations and Remuneration Committee. The Board is committed to appointing as directors, a diverse range of qualified persons with the appropriate level of experience and skills, as and when vacancies on the Board may occur.

**Principle 3: Promote ethical and responsible decision making**

**Recommendation 3.1 - Recommendation followed**

The Board acknowledges its responsibility to set the required standards and ethical tone of the Company. Accordingly, it clarified the standards of ethical and professional behaviour required of Directors, employees and contractors by establishment of a Code of Conduct.

The Code of Conduct addresses such matters as compliance with applicable laws, fitness for work, equal opportunity and diversity, appropriate standards of behaviour, the management of conflicts of interest and dealings in both employment and other situations.

A copy of the Code of Conduct is located on the Company's website.

**Recommendation 3.2 - Recommendation followed**

During the year the Company established and adopted a Diversity & Equal Opportunity Policy which established the Company's commitment to recognising the benefits of attracting and retaining a diverse range of people based on merit, qualifications, experience, skills, knowledge and potential regardless of gender, ethnicity, age or other status.

The Diversity & Equal Opportunity Policy sets out the responsibility of the Board and every Company employee to support diversity and equal opportunity, by developing policy, monitoring outcomes and setting and disclosing measurable objectives.

A copy of the Diversity & Equal Opportunity Policy can be found on the Company's website.

**Recommendation 3.3 - Recommendation followed**

In accordance with the policy, the Board has set a number of measurable objectives for achieving diversity in the workplace. Responsibility for implementation of each objective has been assigned to the relevant Board Committee or senior executive.

**Principle 3: Promote ethical and responsible decision making (continued)**

The measurable objectives are as follows:

| <b>Diversity Objective</b>                                                                                                                        | <b>Status as at 30 June 2012</b>                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Establish responsibility at Board level and amend Nominations & Remuneration Committee Charter to incorporate diversity as one of its objectives. | The Nominations & Remuneration Committee Charter will be amended at the earliest opportunity in FY2013, to include diversity as one of its objectives                                                                                                                                                                                                                                                                                                      |
| Appoint a member of the executive management group with responsibility for diversity and equal opportunity.                                       | The Managing Director and the General Manager HR & HSEC have been appointed by the Board with the responsibility for diversity.                                                                                                                                                                                                                                                                                                                            |
| Develop and distribute Equal Opportunity and Diversity Guidelines to the Flinders Mines workforce.                                                | Guidelines, including a complaints and grievances process, have been developed and distributed to the entire workforce.                                                                                                                                                                                                                                                                                                                                    |
| Publish the Diversity and Equal Opportunity Policy on the Company's website.                                                                      | The policy is now included in the Corporate section of the Company's website.                                                                                                                                                                                                                                                                                                                                                                              |
| Conduct an annual review of the objectives and measure progress against them.                                                                     | This is an ongoing commitment. The Company will continue to review and update measurable objectives to promote diversity during the 2013 reporting period.                                                                                                                                                                                                                                                                                                 |
| Conduct workforce reviews and analysis to develop further measurable objectives in 2013 for achieving diversity.                                  | Annual remuneration reviews are conducted to ensure no disparity or bias exists. 2013 Diversity Objectives will be agreed by the Nominations & Remuneration Committee in early FY 2013.                                                                                                                                                                                                                                                                    |
| Update all Company policies to reflect the Company's commitment to diversity.                                                                     | During the year, a comprehensive review of all Company policies was undertaken by the specially formed Corporate Governance Committee, to ensure that all policies reflect the Company's values.                                                                                                                                                                                                                                                           |
| Develop Company-wide diversity communication, training and induction procedures.                                                                  | The Company's updated policies, including diversity policy and objectives, were communicated to all employees.<br><br>No cases of discrimination or harassment were reported during the period.                                                                                                                                                                                                                                                            |
| Appoint a diversity of Board members.                                                                                                             | The Board remains committed to identifying suitably qualified persons for appointment to the Board and should a vacancy occur, women applicants will be favourably viewed.                                                                                                                                                                                                                                                                                 |
| Implement career and development planning as an integral part of employees' annual performance appraisal plan.                                    | Development planning is included as part of the Company's performance appraisal process for all employees.<br><br>Flinders Mines encourages all employees to achieve their potential through the provision of career development opportunities, including: <ul style="list-style-type: none"> <li>• Certified training;</li> <li>• Participation at conferences and seminars; and</li> <li>• Membership of professional societies and networks.</li> </ul> |

**Recommendation 3.4 - Recommendation followed**

As at 30 June 2012, women represented 41.7% of the Company's total workforce. There were no female senior executives (Managing Director's direct reports) and no female directors on the Board. The Board remains committed to identifying suitably qualified people regardless of gender, should a vacancy occur and for consideration as part of the Board's succession planning, however, women applicants will be favourably viewed.

**Recommendation 3.5 - Recommendation followed**

The Company's Code of Conduct and Diversity & Equal Opportunity Policy have been posted to the Company's website.

**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 followed**

The Audit Committee consists of three non-executive, independent Board directors, Messrs Vickery, Kennedy and Cooper 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 and development company 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, CFO/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 ASX and Australian Securities and Investments Commission (ASIC) 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 website; and
- disclosure of the Company's Corporate Governance practices and communications strategy on the entity's website.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor of the Company is also invited to the Annual General Meeting of shareholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report. Pursuant to section 249K of the *Corporations Act 2001* the external auditor is provided with a copy of the notice of meeting and related communications received by shareholders.

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

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

### **Recommendation 7.1, 7.2 & 7.4 - Recommendations followed**

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

- Mr E J Vickery (Chair)
- Mr J D Cooper
- Managing Director/CEO
- General Manager HSEC & HR

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 Managing Director/Chief Executive Officer and Chief Financial Officer have provided assurances that the written declarations under s295A of the *Corporations Act 2001* 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 Managing Director/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 Nomination and Remuneration Committee has been established 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".

**Recommendation 8.2 - Recommendation not followed**

A remuneration committee has been established, consisting solely of independent directors and chaired by an independent director. The committee has only two members, which is at variance with the ASX Recommendations. Given the stage of life of the entity and the relative size of the Company and its Board, the Board does not believe that a larger remuneration committee is warranted. The Board will consider enlarging the remuneration committee as the Company continues to grow in future years.

**Recommendation 8.3 - Recommendation followed**

In accordance with ASX Recommendation 8.3 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 junior listed mineral exploration and development 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 Incentive Rights Plan approved by shareholders that enables the Board to offer eligible employees rights to acquire ordinary fully paid shares in the Company. Under the terms of the Plan, rights to acquire ordinary fully paid shares at no cost may be offered to the Company's eligible employees as 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 a long-term 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.

**Recommendation 8.4 - Recommendation followed**

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.html](http://www.flindersmines.com/governance.html)

**Flinders Mines Limited**  
**Consolidated statement of comprehensive income**  
**For the year ended 30 June 2012**

|                                                                                                        |       | <b>Consolidated</b> |                |
|--------------------------------------------------------------------------------------------------------|-------|---------------------|----------------|
|                                                                                                        |       | <b>30 June</b>      | <b>30 June</b> |
|                                                                                                        |       | <b>2012</b>         | <b>2011</b>    |
|                                                                                                        | Notes | \$                  | \$             |
| <b>Revenue from continuing operations</b>                                                              | 4     | <b>1,503,241</b>    | 2,909,225      |
| Loss on disposal of assets                                                                             |       | <b>(37,308)</b>     | (23,502)       |
| Marketing expenses                                                                                     |       | <b>(1,241,889)</b>  | (1,043,293)    |
| Administrative expenses                                                                                | 5     | <b>(5,710,317)</b>  | (4,437,695)    |
| Finance costs                                                                                          | 5     | <b>(22,509)</b>     | (20,281)       |
| Exploration expenditure impaired                                                                       | 5     | <b>(252,917)</b>    | (6,017,328)    |
| <b>(Loss) before income tax</b>                                                                        |       | <b>(5,761,699)</b>  | (8,632,874)    |
| Income tax benefit/(expense)                                                                           | 6     | <b>824,847</b>      | 668,618        |
| <b>(Loss) for the year</b>                                                                             |       | <b>(4,936,852)</b>  | (7,964,256)    |
| <b>Other comprehensive income</b>                                                                      |       |                     |                |
| Changes in the fair value of available-for-sale financial assets (net of tax)                          | 18(a) | <b>(90,261)</b>     | (24,014)       |
| <b>Other comprehensive income for the year (net of tax)</b>                                            |       | <b>(90,261)</b>     | (24,014)       |
| <b>Total comprehensive income for the year</b>                                                         |       | <b>(5,027,113)</b>  | (7,988,270)    |
| (Loss) is attributable to:                                                                             |       |                     |                |
| Owners of Flinders Mines Limited                                                                       |       | <b>(4,936,852)</b>  | (7,964,256)    |
|                                                                                                        |       | <b>(4,936,852)</b>  | (7,964,256)    |
| Total comprehensive income for the year is attributable to:                                            |       |                     |                |
| Owners of Flinders Mines Limited                                                                       |       | <b>(5,027,113)</b>  | (7,988,270)    |
|                                                                                                        |       | <b>(5,027,113)</b>  | (7,988,270)    |
| <b>Earnings per share for (loss) attributable to the ordinary equity holders of the Parent Entity:</b> |       |                     |                |
| Basic earnings per share                                                                               | 28    | <b>(0.2711)</b>     | (0.4375)       |

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

**Flinders Mines Limited**  
**Consolidated statement of financial position**  
**As at 30 June 2012**

|                                     |       | <b>Consolidated</b>      |                          |
|-------------------------------------|-------|--------------------------|--------------------------|
|                                     |       | <b>30 June</b>           | <b>30 June</b>           |
|                                     |       | <b>2012</b>              | <b>2011</b>              |
|                                     | Notes | \$                       | \$                       |
| <b>ASSETS</b>                       |       |                          |                          |
| <b>Current assets</b>               |       |                          |                          |
| Cash and cash equivalents           | 7     | <b>16,071,604</b>        | 36,321,300               |
| Trade and other receivables         | 8     | <b>1,087,031</b>         | 1,748,263                |
| Other current assets                | 9     | <b>230,952</b>           | 45,545                   |
| Total current assets                |       | <b><u>17,389,587</u></b> | <b><u>38,115,108</u></b> |
| <b>Non-current assets</b>           |       |                          |                          |
| Available-for-sale financial assets | 10    | <b>110,722</b>           | 239,667                  |
| Plant and equipment                 | 11    | <b>1,471,198</b>         | 1,670,970                |
| Exploration and evaluation assets   | 12    | <b>59,596,807</b>        | 43,278,950               |
| Other non-current assets            | 13    | <b>27,000</b>            | 27,000                   |
| Total non-current assets            |       | <b><u>61,205,727</u></b> | <b><u>45,216,587</u></b> |
| <b>Total assets</b>                 |       | <b><u>78,595,314</u></b> | <b><u>83,331,695</u></b> |
| <b>LIABILITIES</b>                  |       |                          |                          |
| <b>Current liabilities</b>          |       |                          |                          |
| Trade and other payables            | 14    | <b>1,101,656</b>         | 1,720,061                |
| Provisions                          | 15    | <b>278,850</b>           | 203,165                  |
| Total current liabilities           |       | <b><u>1,380,506</u></b>  | <b><u>1,923,226</u></b>  |
| <b>Non-current liabilities</b>      |       |                          |                          |
| Provisions                          | 16    | <b>154,956</b>           | 96,516                   |
| Total non-current liabilities       |       | <b><u>154,956</u></b>    | <b><u>96,516</u></b>     |
| <b>Total liabilities</b>            |       | <b><u>1,535,462</u></b>  | <b><u>2,019,742</u></b>  |
| <b>Net assets</b>                   |       | <b><u>77,059,852</u></b> | <b><u>81,311,953</u></b> |
| <b>EQUITY</b>                       |       |                          |                          |
| Contributed equity                  | 17    | <b>105,277,581</b>       | 105,266,776              |
| Reserves                            | 18(a) | <b>1,312,734</b>         | 638,788                  |
| Retained losses                     | 18(b) | <b>(29,530,463)</b>      | (24,593,611)             |
| <b>Total equity</b>                 |       | <b><u>77,059,852</u></b> | <b><u>81,311,953</u></b> |

*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 year ended 30 June 2012**

| <b>Consolidated</b>                                          | <b>Notes</b> | <b>Contributed equity<br/>\$</b> | <b>Reserves<br/>\$</b>  | <b>Retained losses<br/>\$</b> | <b>Total equity<br/>\$</b> |
|--------------------------------------------------------------|--------------|----------------------------------|-------------------------|-------------------------------|----------------------------|
| <b>Balance at 1 July 2010</b>                                |              | <b><u>105,227,282</u></b>        | <b><u>139,139</u></b>   | <b><u>(16,629,355)</u></b>    | <b><u>88,737,066</u></b>   |
| <b>Total comprehensive income for the year:</b>              |              |                                  |                         |                               |                            |
| Loss for the year                                            |              | -                                | -                       | (7,964,256)                   | (7,964,256)                |
| Revaluation of financial assets (net of tax)                 | 18           | <u>-</u>                         | <u>(24,014)</u>         | <u>-</u>                      | <u>(24,014)</u>            |
|                                                              |              | <u>-</u>                         | <u>(24,014)</u>         | <u>(7,964,256)</u>            | <u>(7,988,270)</u>         |
| <b>Transactions with owners in their capacity as owners:</b> |              |                                  |                         |                               |                            |
| Options issued during the year                               | 18           | -                                | 53,979                  | -                             | 53,979                     |
| Rights expensed during the year                              | 18           | -                                | 469,684                 | -                             | 469,684                    |
| Contributions of equity                                      | 17           | 41,850                           | -                       | -                             | 41,850                     |
| Transaction costs (net of tax)                               | 17           | <u>(2,356)</u>                   | <u>-</u>                | <u>-</u>                      | <u>(2,356)</u>             |
|                                                              |              | <u>39,494</u>                    | <u>523,663</u>          | <u>-</u>                      | <u>563,157</u>             |
| <b>Balance at 30 June 2011</b>                               |              | <b><u>105,266,776</u></b>        | <b><u>638,788</u></b>   | <b><u>(24,593,611)</u></b>    | <b><u>81,311,953</u></b>   |
| <b>Consolidated</b>                                          | <b>Notes</b> | <b>Contributed equity<br/>\$</b> | <b>Reserves<br/>\$</b>  | <b>Retained losses<br/>\$</b> | <b>Total equity<br/>\$</b> |
| <b>Balance at 1 July 2011</b>                                |              | <b><u>105,266,776</u></b>        | <b><u>638,788</u></b>   | <b><u>(24,593,611)</u></b>    | <b><u>81,311,953</u></b>   |
| <b>Total comprehensive income for the year:</b>              |              |                                  |                         |                               |                            |
| Loss for the year                                            |              | -                                | -                       | (4,936,852)                   | (4,936,852)                |
| Revaluation of financial assets (net of tax)                 | 18           | <u>-</u>                         | <u>(90,261)</u>         | <u>-</u>                      | <u>(90,261)</u>            |
|                                                              |              | <u>-</u>                         | <u>(90,261)</u>         | <u>(4,936,852)</u>            | <u>(5,027,113)</u>         |
| <b>Transactions with owners in their capacity as owners:</b> |              |                                  |                         |                               |                            |
| Rights expensed during the year                              | 18           | -                                | 771,544                 | -                             | 771,544                    |
| Rights expired during the year                               | 18           | -                                | (7,337)                 | -                             | (7,337)                    |
| Contributions of equity                                      | 17           | 10,805                           | -                       | -                             | 10,805                     |
|                                                              |              | <u>10,805</u>                    | <u>764,207</u>          | <u>-</u>                      | <u>775,012</u>             |
| <b>Balance at 30 June 2012</b>                               |              | <b><u>105,277,581</u></b>        | <b><u>1,312,734</u></b> | <b><u>(29,530,463)</u></b>    | <b><u>77,059,852</u></b>   |

*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 year ended 30 June 2012**

|                                             |                                                                           | <b>Consolidated</b>        |                            |
|---------------------------------------------|---------------------------------------------------------------------------|----------------------------|----------------------------|
|                                             |                                                                           | <b>30 June</b>             | <b>30 June</b>             |
|                                             |                                                                           | <b>2012</b>                | <b>2011</b>                |
| Notes                                       |                                                                           | <b>\$</b>                  | <b>\$</b>                  |
| <b>Cash flows from operating activities</b> |                                                                           |                            |                            |
|                                             | Receipts from customers (inclusive of goods and services tax)             | -                          | 48,800                     |
|                                             | Payments to suppliers and employees (inclusive of goods and services tax) | <b>(6,234,923)</b>         | (4,818,833)                |
|                                             | Interest received                                                         | <b>2,248,680</b>           | 3,026,625                  |
|                                             | Research and Development tax incentive received                           | <b>679,919</b>             | 104,494                    |
|                                             | Other payments                                                            | <b>(1,812)</b>             | (2,368)                    |
| 27                                          | <b>Net cash (outflow) from operating activities</b>                       | <b><u>(3,308,136)</u></b>  | <b><u>(1,641,282)</u></b>  |
| <b>Cash flows from investing activities</b> |                                                                           |                            |                            |
|                                             | Proceeds from purchase of subsidiary                                      | -                          | 351,162                    |
|                                             | Payments for plant and equipment                                          | <b>(154,697)</b>           | (208,060)                  |
|                                             | Loans to related parties                                                  | -                          | (150,000)                  |
|                                             | Proceeds from sale of plant and equipment                                 | <b>29,491</b>              | 15,000                     |
|                                             | Payments for exploration activities                                       | <b><u>(16,827,159)</u></b> | <b><u>(16,894,639)</u></b> |
|                                             | <b>Net cash (outflow) from investing activities</b>                       | <b><u>(16,952,365)</u></b> | <b><u>(16,886,537)</u></b> |
| <b>Cash flows from financing activities</b> |                                                                           |                            |                            |
|                                             | Proceeds from issues of shares and other equity securities                | <b><u>10,805</u></b>       | <b><u>41,850</u></b>       |
|                                             | <b>Net cash inflow from financing activities</b>                          | <b><u>10,805</u></b>       | <b><u>41,850</u></b>       |
|                                             | <b>Net (decrease) in cash and cash equivalents</b>                        | <b>(20,249,696)</b>        | (18,485,969)               |
|                                             | Cash and cash equivalents at the beginning of the financial year          | <b><u>36,321,300</u></b>   | <b><u>54,807,269</u></b>   |
| 7                                           | <b>Cash and cash equivalents at the end of the financial year</b>         | <b><u>16,071,604</u></b>   | <b><u>36,321,300</u></b>   |

*The above consolidated 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 of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Flinders Mines Limited and its subsidiaries.

### **(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. Flinders Mines Limited is a for-profit entity for the purpose of preparing the financial statements.

#### *(i) Compliance with IFRS*

These consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *(ii) New and amended standards adopted by the Group*

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, the adoption of AASB 1054 *Australian Additional Disclosures* and AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* enabled the removal of certain disclosures in relation to commitments (refer to note 22).

#### *(iii) Early adoption of standards*

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

#### *(iv) Historical cost convention*

These financial statements have been prepared on an accruals 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 and certain classes of plant and equipment.

#### *(v) 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 Group.

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Flinders Mines Limited ("Company" or "Parent Entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Flinders Mines Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(f)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *(ii) Joint ventures*

##### *Jointly controlled assets*

The Group's share of the assets, liabilities and expenses of joint venture operations are incorporated in the appropriate items of the consolidated financial statements. Details of the Group's interests are set out in note 25.

## **1 Summary of significant accounting policies (continued)**

### *Joint venture entities*

The Group's interests in joint ventures are accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of a joint venture is recognised in profit or loss, and the share of movements in reserves is recognised in other comprehensive income. Details relating to the joint venture entities are set out in note 25.

### **(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 income 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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 foreign operations where the company 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.

### **(f) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

## **1 Summary of significant accounting policies (continued)**

The excess of any consideration transferred over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

### **(g) 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.

### **(h) Cash and cash equivalents**

For the purpose of presentation in the consolidated 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 12 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. Any bank overdrafts the Group have are shown within borrowings in current liabilities in the consolidated statement of financial position.

### **(i) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

### **(j) 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 Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group 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.

#### ***Measurement***

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held to maturity investments are subsequently 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 Group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

## **1 Summary of significant accounting policies (continued)**

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 Group 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 Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

## **(k) Plant and equipment**

Each class of plant and equipment is carried at historical cost or fair value less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

### ***Plant and equipment***

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

Subsequent costs are included in the assets' carrying amount or recognised as separate assets as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year 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 Group commencing from the time the asset is held ready for use. The depreciation rates used for plant and equipment range 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 (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

## **1 Summary of significant accounting policies (continued)**

### **(l) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### **(m) Employee benefits**

#### *(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and 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 annual leave. 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 non-current liabilities - provisions 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.

The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

#### *(iii) Share-based payments*

Share-based compensation benefits are provided to employees via the Flinders Mines Limited Employee Incentive Rights 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 or Binomial pricing model. The cost is recognised as an expense in the statement of comprehensive income with a corresponding increase in the share-based payments reserve or issued capital when the options, rights or shares are issued.

### **(n) Earnings per share (EPS)**

#### *(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.

## **1 Summary of significant accounting policies (continued)**

### **(o) 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 consolidated 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
- exploration and/or evaluation activities in the area of interest have not at the end of each reporting period 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.

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.

### **(p) 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 consolidated 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.

### **(q) Comparative figures**

Comparative figures are adjusted to conform to Accounting Standards when required.

### **(r) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Flinders Mines Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Flinders Mines Limited.

### **(s) Key estimates**

The preparation of the consolidated financial statements requires management to make estimates and judgements. These 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 Group and that are believed to be reasonable under the circumstances.

## 1 Summary of significant accounting policies (continued)

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### **Impairment**

The Group 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 Group's policy for exploration and evaluation is discussed in note 1 (o). 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. The related carrying amounts are disclosed in note 12.

### **Share-based payments**

The Group measures share-based payments at fair value at the grant date using the Black-Scholes or Binomial formula taking into account the terms and conditions upon which the instrument was granted, as discussed in note 29.

### **(t) New accounting standards and interpretations**

The Australian Accounting Standards Board (AASB) has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group is set out below.

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

#### **AASB 9: Financial Instruments, 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] and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)**

The AASB aims to replace AASB 139 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

#### **AASB 2010-8: Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets [AA 112] (applicable for annual reporting periods commencing on or after 1 January 2012)**

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. It is currently evaluating the impact of the amendment.

#### **AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, revised AASB 127: Separate Financial Statements and AASB 128: Investments in Associates and Joint Ventures and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)**

AASB 10 supersedes the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements (AASB 127) and Interpretation 112 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

## 1 Summary of significant accounting policies (continued)

AASB 11 supersedes AASB 131 Interests in Joint Ventures (AASB 131). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. It introduces two accounting categories (joint operations and joint ventures) whose applicability is determined based on the substance of the joint arrangement. In addition, AASB 131's option of using proportionate consolidation for joint ventures has been eliminated. AASB 11 now requires the use of the equity accounting method for joint ventures, which is currently used for investments in associates.

AASB 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

AASB 127 Consolidated and Separate Financial Statements was amended to AASB 127 Separate Financial Statements which now deals only with separate financial statements. AASB 128 brings investments in joint ventures into its scope. However, AASB 128's equity accounting methodology remains unchanged.

### **AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13: (effective 1 January 2013)**

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

### **Revised AASB 119: Employee Benefits, AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11: Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)**

#### **AASB 2011-9: Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income (effective 1 July 2012)**

The AASB 101 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

#### **AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)**

AASB 2011-4 makes amendments to AASB 124 Related Party Disclosures to remove individual key management personnel disclosure requirements, to achieve consistency with the international equivalent (which includes requirements to disclose aggregate (rather than individual) amounts of KMP compensation), and remove duplication with the Corporations Act 2011. The amendments are applicable for annual periods beginning on or after 1 July 2013. The Group's management have yet to assess the impact of these amendments.

#### **AASB Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine**

Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 112 Inventories if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met (as an addition to, or enhancement of, an existing asset). The interpretation is applicable for annual periods beginning on or after 1 January 2013. The interpretation will have no impact on the Group as it has no mining activities.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### **(u) Impact of the Carbon Tax Legislation**

On 10 July 2011, the Commonwealth Government announced the "Securing a Clean Energy Future – the Australian Government's Climate Change Plan". Whilst the announcement provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Group as legislation must be voted on and passed by both Houses of Parliament. In addition, as the Group will not fall within the "Top 500 Australian Polluters", the impact of the Carbon Scheme will be through indirect effects of increased prices on many production inputs and general business expenses as suppliers subject to the carbon pricing mechanism are likely to pass on their carbon price burden to their customers in the form of increased prices. Directors expect that this will not have a significant impact upon the operation costs within the business, and therefore will not have an impact upon the valuation of assets and/or going concern of the business.

## **1 Summary of significant accounting policies (continued)**

### **(v) Parent entity financial information**

The financial information for the parent entity, Flinders Mines Limited, disclosed in note 30 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Flinders Mines Limited.

## 2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group'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 Group.

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 Group's operating units. The board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk, use of financial instruments and investment of excess liquidity where appropriate.

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

The Group holds the following financial instruments:

|                                     | <b>Consolidated</b>      |                          |
|-------------------------------------|--------------------------|--------------------------|
|                                     | <b>2012</b>              | <b>2011</b>              |
|                                     | <b>\$</b>                | <b>\$</b>                |
| <b>Financial assets</b>             |                          |                          |
| Cash and cash equivalents           | <b>16,071,604</b>        | 36,321,300               |
| Trade and other receivables         | <b>1,087,031</b>         | 1,748,263                |
| Available-for-sale financial assets | <b>110,722</b>           | 239,667                  |
|                                     | <b><u>17,269,357</u></b> | <b><u>38,309,230</u></b> |
| <b>Financial liabilities</b>        |                          |                          |
| Trade and other payables            | <b>1,101,656</b>         | 1,720,061                |
|                                     | <b><u>1,101,656</u></b>  | <b><u>1,720,061</u></b>  |

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk is the risk that financial loss will be suffered due to adverse movements in exchange rates. The Group is not exposed to foreign exchange risk.

#### (ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from foreign exchange or interest rate risk). The Group 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 Group with the use of rolling short-term deposits.

The Group has no long term financial liabilities upon which it pays interest.

As at the end of the reporting period, the Group had the following variable rate cash and cash equivalent holdings:

| <b>Consolidated</b>                          | <b>30 June 2012</b>                                 |                          | <b>30 June 2011</b>                                 |                          |
|----------------------------------------------|-----------------------------------------------------|--------------------------|-----------------------------------------------------|--------------------------|
|                                              | <b>Weighted<br/>average<br/>interest rate<br/>%</b> | <b>Balance<br/>\$</b>    | <b>Weighted<br/>average<br/>interest rate<br/>%</b> | <b>Balance<br/>\$</b>    |
| Cash and cash equivalents                    | <b>5.13 %</b>                                       | <b><u>16,071,604</u></b> | <b>6.17 %</b>                                       | <b><u>36,321,300</u></b> |
| Net exposure to cash flow interest rate risk |                                                     | <b><u>16,071,604</u></b> |                                                     | <b><u>36,321,300</u></b> |

## 2 Financial risk management (continued)

### *Interest rate sensitivity analysis*

The Group 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.

At 30 June 2012, 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:

|                                   | Carrying<br>amount<br>\$ | Interest rate risk |                |                  |                  |
|-----------------------------------|--------------------------|--------------------|----------------|------------------|------------------|
|                                   |                          | Increase 2%        |                | Decrease 2%      |                  |
|                                   |                          | Profit<br>\$       | Equity<br>\$   | Profit<br>\$     | Equity<br>\$     |
| <b>30 June 2012</b>               |                          |                    |                |                  |                  |
| <b>Financial assets</b>           |                          |                    |                |                  |                  |
| Cash and cash equivalents         | 16,071,604               | <u>321,432</u>     | <u>321,432</u> | <u>(321,432)</u> | <u>(321,432)</u> |
| <b>Total increase/ (decrease)</b> |                          | <u>321,432</u>     | <u>321,432</u> | <u>(321,432)</u> | <u>(321,432)</u> |
| <b>Consolidated</b>               |                          |                    |                |                  |                  |
|                                   |                          | Increase 2%        |                | Decrease 2%      |                  |
|                                   |                          | Profit<br>\$       | Equity<br>\$   | Profit<br>\$     | Equity<br>\$     |
| <b>30 June 2011</b>               |                          |                    |                |                  |                  |
| <b>Financial assets</b>           |                          |                    |                |                  |                  |
| Cash and cash equivalents         | 36,321,300               | <u>726,426</u>     | <u>726,426</u> | <u>(726,426)</u> | <u>(726,426)</u> |
| <b>Total increase/ (decrease)</b> |                          | <u>726,426</u>     | <u>726,426</u> | <u>(726,426)</u> | <u>(726,426)</u> |

### (b) Credit risk

Credit risk is the risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality. 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. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. 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. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

### (c) Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in settling its debts or otherwise meeting its obligations. The Group manages liquidity risk by monitoring cash flows and ensuring that adequate funds are available to meet cash demands. At the reporting date the Group held deposits at call of \$15,100,000 (2011: \$34,619,801) 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.

AASB 7: *Financial Instruments: Disclosures* 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).

## 2 Financial risk management (continued)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011.

| At 30 June 2012                     | Level 1<br>\$     | Level 2<br>\$     | Level 3<br>\$     | Total<br>\$     |
|-------------------------------------|-------------------|-------------------|-------------------|-----------------|
| <b>Assets</b>                       |                   |                   |                   |                 |
| Available-for-sale financial assets |                   |                   |                   |                 |
| Maximus Resources Limited           | 65,222            | -                 | -                 | 65,222          |
| Copper Range Limited                | 23,000            | -                 | -                 | 23,000          |
| Phoenix Copper Limited              | 22,500            | -                 | -                 | 22,500          |
| <b>Total assets</b>                 | <b>110,722</b>    | <b>-</b>          | <b>-</b>          | <b>110,722</b>  |
| <br>At 30 June 2011                 | <br>Level 1<br>\$ | <br>Level 2<br>\$ | <br>Level 3<br>\$ | <br>Total<br>\$ |
| <b>Assets</b>                       |                   |                   |                   |                 |
| Available-for-sale financial assets |                   |                   |                   |                 |
| Maximus Resources Limited           | 195,667           | -                 | -                 | 195,667         |
| Copper Range Limited                | 19,000            | -                 | -                 | 19,000          |
| Phoenix Copper Limited              | 25,000            | -                 | -                 | 25,000          |
| <b>Total assets</b>                 | <b>239,667</b>    | <b>-</b>          | <b>-</b>          | <b>239,667</b>  |

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

## 3 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 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 the Group.

### 3 Segment information (continued)

#### (b) Business segments

| 2012                                                                           | Pilbara Iron<br>Ore<br>\$ | Canegrass<br>Magnetite<br>\$ | Diamonds<br>\$     | Other<br>Minerals<br>\$  | Total<br>\$       |
|--------------------------------------------------------------------------------|---------------------------|------------------------------|--------------------|--------------------------|-------------------|
| Segment revenue                                                                | -                         | -                            | -                  | -                        | -                 |
| Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) | -                         | -                            | -                  | (252,917)                | (252,917)         |
| Impairment                                                                     | -                         | -                            | -                  | (252,917)                | (252,917)         |
| Segment assets                                                                 | <u>53,043,632</u>         | <u>3,853,274</u>             | <u>-</u>           | <u>2,699,901</u>         | <u>59,596,807</u> |
| Segment asset movements for the year:                                          |                           |                              |                    |                          |                   |
| Capital expenditure                                                            | 15,863,048                | 358,302                      | -                  | 156,410                  | 16,377,760        |
| Capital expenditure written off / impaired                                     | -                         | -                            | -                  | (252,917)                | (252,917)         |
| Total movement for the year                                                    | <u>15,863,048</u>         | <u>358,302</u>               | <u>-</u>           | <u>(96,507)</u>          | <u>16,124,843</u> |
| Segment assets                                                                 |                           |                              |                    |                          | 59,596,807        |
| Unallocated assets                                                             |                           |                              |                    |                          | 18,998,507        |
| Total assets                                                                   |                           |                              |                    |                          | <u>78,595,314</u> |
| Segment liabilities                                                            | 605,626                   | 14,533                       | -                  | -                        | 620,159           |
| Unallocated liabilities                                                        |                           |                              |                    |                          | 915,303           |
| Total liabilities                                                              |                           |                              |                    |                          | <u>1,535,462</u>  |
| 2011                                                                           | Pilbara Iron<br>Ore<br>\$ | Canegrass<br>Magnetite<br>\$ | Diamonds*<br>\$    | Other<br>Minerals*<br>\$ | Total<br>\$       |
| Segment revenue                                                                | -                         | -                            | -                  | -                        | -                 |
| Adjusted EBITDA                                                                | -                         | -                            | (4,856,938)        | (1,160,390)              | (6,017,328)       |
| Impairment                                                                     | -                         | -                            | (4,856,938)        | (1,160,390)              | (6,017,328)       |
| Segment assets                                                                 | <u>37,180,584</u>         | <u>3,494,972</u>             | <u>-</u>           | <u>2,603,394</u>         | <u>43,278,950</u> |
| Segment asset movements for the year:                                          |                           |                              |                    |                          |                   |
| Capital expenditure                                                            | 14,483,159                | 1,563,244                    | 670,094            | 477,098                  | 17,193,595        |
| Capital expenditure written off / impaired                                     | -                         | -                            | (4,856,938)        | (1,160,390)              | (6,017,328)       |
| Inter-segment transfer                                                         | -                         | -                            | (2,603,394)        | 2,603,394                | -                 |
| Total movement for the year                                                    | <u>14,483,159</u>         | <u>1,563,244</u>             | <u>(6,790,238)</u> | <u>1,920,102</u>         | <u>11,176,267</u> |
| Segment assets                                                                 |                           |                              |                    |                          | 43,278,950        |
| Unallocated assets                                                             |                           |                              |                    |                          | 40,052,745        |
| Total assets                                                                   |                           |                              |                    |                          | <u>83,331,695</u> |
| Segment liabilities                                                            | 1,028,882                 | 32,658                       | -                  | -                        | 1,061,540         |
| Unallocated liabilities                                                        |                           |                              |                    |                          | 958,202           |
| Total liabilities                                                              |                           |                              |                    |                          | <u>2,019,742</u>  |

\* During the 2011 financial year management amended the operating segment categories based on changes made to the reports reviewed and used by the Board of Directors (the chief operating decision maker). These changes resulted in the category 'Diamonds and Phosphate' becoming 'Diamonds' and the category 'Other' becoming 'Other Minerals'. The assets within 'Diamonds' were transferred to 'Other Minerals' during the 2011 financial year, as shown in the segment asset movements summary above.

### 3 Segment information (continued)

(i) *Segment revenue*

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

|                                                          | <b>Consolidated</b>     |                         |
|----------------------------------------------------------|-------------------------|-------------------------|
|                                                          | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                                                          | <b>\$</b>               | <b>\$</b>               |
| Total segment revenue                                    | -                       | -                       |
| Interest revenue                                         | 1,503,241               | 2,819,375               |
| Management fees                                          | -                       | 88,800                  |
| Other income                                             | -                       | 1,050                   |
| <b>Total revenue from continuing operations (note 4)</b> | <b><u>1,503,241</u></b> | <b><u>2,909,225</u></b> |

(ii) *Adjusted EBITDA*

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

|                                        | <b>Consolidated</b>       |                           |
|----------------------------------------|---------------------------|---------------------------|
|                                        | <b>30 June<br/>2012</b>   | <b>30 June<br/>2011</b>   |
|                                        | <b>\$</b>                 | <b>\$</b>                 |
| <b>Allocated:</b>                      |                           |                           |
| Adjusted EBITDA                        | (252,917)                 | (6,017,328)               |
| <b>Unallocated:</b>                    |                           |                           |
| Interest revenue                       | 1,503,241                 | 2,819,375                 |
| Management fees                        | -                         | 88,800                    |
| Other income                           | -                         | 1,050                     |
| Loss on disposal of assets             | (37,308)                  | (23,502)                  |
| Marketing expense                      | (1,241,889)               | (1,043,293)               |
| Administrative expense                 | (5,710,317)               | (4,437,695)               |
| Finance costs                          | (22,509)                  | (20,281)                  |
| <b>Profit/(loss) before income tax</b> | <b><u>(5,761,699)</u></b> | <b><u>(8,632,874)</u></b> |

(iii) *Segment assets*

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

|                                                                             | <b>Consolidated</b>      |                          |
|-----------------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                             | <b>30 June<br/>2012</b>  | <b>30 June<br/>2011</b>  |
|                                                                             | <b>\$</b>                | <b>\$</b>                |
| <b>Allocated:</b>                                                           |                          |                          |
| Segment assets                                                              | 59,596,807               | 43,278,950               |
| <b>Unallocated:</b>                                                         |                          |                          |
| Cash and cash equivalents                                                   | 16,071,604               | 36,321,300               |
| Trade and other receivables                                                 | 1,087,031                | 1,748,263                |
| Other current assets                                                        | 230,952                  | 45,545                   |
| Available-for-sale financial assets                                         | 110,722                  | 239,667                  |
| Plant and equipment                                                         | 1,471,198                | 1,670,970                |
| Other non-current assets                                                    | 27,000                   | 27,000                   |
| <b>Total assets as per the consolidated statement of financial position</b> | <b><u>78,595,314</u></b> | <b><u>83,331,695</u></b> |

(iv) *Segment liabilities*

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

|                                                                                  | <b>Consolidated</b>     |                         |
|----------------------------------------------------------------------------------|-------------------------|-------------------------|
|                                                                                  | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                                                                                  | <b>\$</b>               | <b>\$</b>               |
| <b>Allocated:</b>                                                                |                         |                         |
| Segment liabilities                                                              | 620,159                 | 1,061,540               |
| <b>Unallocated:</b>                                                              |                         |                         |
| Trade and other payables                                                         | 481,497                 | 658,521                 |
| Provisions                                                                       | 433,806                 | 299,681                 |
| <b>Total liabilities as per the consolidated statement of financial position</b> | <b><u>1,535,462</u></b> | <b><u>2,019,742</u></b> |

#### 4 Revenue

|                                   | <b>Consolidated</b>     |                         |
|-----------------------------------|-------------------------|-------------------------|
|                                   | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                                   | <b>\$</b>               | <b>\$</b>               |
| <b>From continuing operations</b> |                         |                         |
| <i>Other revenue</i>              |                         |                         |
| Interest received                 | 1,503,241               | 2,819,375               |
| Management fees                   | -                       | 88,800                  |
| Other income                      | -                       | 1,050                   |
|                                   | <u><b>1,503,241</b></u> | <u><b>2,909,225</b></u> |

#### 5 Expenses

|                                                                                  | <b>Consolidated</b>     |                         |
|----------------------------------------------------------------------------------|-------------------------|-------------------------|
|                                                                                  | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                                                                                  | <b>\$</b>               | <b>\$</b>               |
| <b>Profit/(loss) before income tax includes the following specific expenses:</b> |                         |                         |
| <b>Finance costs</b>                                                             |                         |                         |
| Bank fees                                                                        | <u>22,509</u>           | <u>20,281</u>           |
|                                                                                  | <u><b>22,509</b></u>    | <u><b>20,281</b></u>    |
| <b>Exploration expenses</b>                                                      |                         |                         |
| General exploration written off                                                  | 209,068                 | 453,381                 |
| Capitalised exploration expenditure impaired                                     | <u>43,849</u>           | <u>5,563,947</u>        |
|                                                                                  | <u><b>252,917</b></u>   | <u><b>6,017,328</b></u> |
| <b>Marketing</b>                                                                 |                         |                         |
| Marketing and promotion                                                          | <u>1,241,889</u>        | <u>1,043,293</u>        |
|                                                                                  | <u><b>1,241,889</b></u> | <u><b>1,043,293</b></u> |
| <b>Administration</b>                                                            |                         |                         |
| Compliance                                                                       | 484,297                 | 469,997                 |
| Depreciation                                                                     | 211,842                 | 168,743                 |
| Administration costs                                                             | 1,603,342               | 2,113,724               |
| Legal fees                                                                       | 73,865                  | 145,811                 |
| Employment costs                                                                 | 1,621,212               | 1,476,679               |
| Scheme of arrangement costs                                                      | 1,673,148               | -                       |
| Other                                                                            | <u>42,611</u>           | <u>62,741</u>           |
|                                                                                  | <u><b>5,710,317</b></u> | <u><b>4,437,695</b></u> |

## 6 Income tax (benefit)/expense

|                                                                                                   | Consolidated<br>30 June<br>2012<br>\$ | 30 June<br>2011<br>\$     |
|---------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------|
| <b>(a) Income tax (benefit)/expense:</b>                                                          |                                       |                           |
| Current tax                                                                                       | -                                     | -                         |
| Deferred tax                                                                                      | 38,683                                | 11,302                    |
| Adjustments for Research and Development tax concession                                           | <u>(863,530)</u>                      | <u>(679,920)</u>          |
|                                                                                                   | <u><b>(824,847)</b></u>               | <u><b>(668,618)</b></u>   |
| <b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>              |                                       |                           |
| (Loss) from continuing operations before income tax expense                                       | <u><b>(5,761,699)</b></u>             | <u><b>(8,632,874)</b></u> |
| Tax at the Australian tax rate of 30% (2011: 30%)                                                 | <u><b>(1,728,510)</b></u>             | <u><b>(2,589,862)</b></u> |
| <i>Tax effect of amounts which are not deductible (assessable) in calculating taxable income:</i> |                                       |                           |
| Entertainment expenses                                                                            | -                                     | 2,930                     |
| Share-based payments expensed during the year                                                     | 229,262                               | 157,099                   |
| Other non-deductible expenses                                                                     | 5,583                                 | 23,568                    |
| Recognition of timing differences not brought to account                                          | 1,532,348                             | 2,417,567                 |
| Adjustment for Research and Development tax offset                                                | <u><b>(863,530)</b></u>               | <u><b>(679,920)</b></u>   |
| Income tax (benefit)/expense                                                                      | <u><b>(824,847)</b></u>               | <u><b>(668,618)</b></u>   |

A deferred tax asset (DTA) on the timing differences has not been recognised as they do not meet the recognition criteria as outlined in Note 1(e) of the financial statements. A DTA has not been recognised in respect of tax losses either as realisation of the benefit is not regarded as probable.

The Group has net DTAs arising in Australia of \$8,987,062 (2011: \$8,134,998) that are available for offset indefinitely against future taxable profits of the companies in which the losses arose.

The tax rates applicable to each potential tax benefit are as follows:

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

## 7 Current assets - Cash and cash equivalents

|                          | Consolidated      |                   |
|--------------------------|-------------------|-------------------|
|                          | 30 June<br>2012   | 30 June<br>2011   |
|                          | \$                | \$                |
| Cash at bank and in hand | 971,604           | 1,701,499         |
| Term deposits            | <u>15,100,000</u> | <u>34,619,801</u> |
|                          | <u>16,071,604</u> | <u>36,321,300</u> |

### (a) Risk exposure

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

### (b) Cash weighted average interest rate

The cash at bank and term deposits are bearing a weighted average interest rate of 5.13% (2011: 6.17%). The term deposits have an average period to repricing of 62 days (2011: 63 days).

## 8 Current assets - Trade and other receivables

|                                         | Consolidated     |                  |
|-----------------------------------------|------------------|------------------|
|                                         | 30 June<br>2012  | 30 June<br>2011  |
|                                         | \$               | \$               |
| <b>Net trade receivables</b>            |                  |                  |
| Trade receivables                       | 1,156,619        | 1,733,724        |
| Provision for impairment of receivables | <u>(73,922)</u>  | <u>-</u>         |
|                                         | <u>1,082,697</u> | <u>1,733,724</u> |
| <b>Other receivables</b>                |                  |                  |
| GST clearing account                    | -                | 12,017           |
| Income tax receivables                  | <u>4,334</u>     | <u>2,522</u>     |
|                                         | <u>4,334</u>     | <u>14,539</u>    |
|                                         | <u>1,087,031</u> | <u>1,748,263</u> |

### (a) Past due but not impaired

As at 30 June 2012 there were no material trade and other receivables that were considered to be past due and not impaired (2011: Nil).

## 9 Current assets - Other current assets

|                    | Consolidated    |                 |
|--------------------|-----------------|-----------------|
|                    | 30 June<br>2012 | 30 June<br>2011 |
|                    | \$              | \$              |
| Pre-paid insurance | <u>230,952</u>  | <u>45,545</u>   |
|                    | <u>230,952</u>  | <u>45,545</u>   |

## 10 Non-current assets - Available-for-sale financial assets

### (a) Fair values

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

|                            | <b>Consolidated</b>     |                         |
|----------------------------|-------------------------|-------------------------|
|                            | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                            | <b>\$</b>               | <b>\$</b>               |
| Shares in listed companies | <u>110,722</u>          | <u>239,667</u>          |
|                            | <u><b>110,722</b></u>   | <u><b>239,667</b></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. The shares are held as available-for-sale and their value is marked-to-market at financial year end.

### (c) Investments in related parties

Available-for-sale financial assets include shares in Maximus Resources Limited with a fair value of \$65,222 (2011: \$195,667). Messrs Kennedy, Malaxos and Vickery are directors of Maximus.

## 11 Non-current assets - Plant and equipment

| Consolidated                   | Plant and equipment<br>\$ | Furniture, fittings and equipment<br>\$ | Machinery and vehicles<br>\$ | Computer hardware<br>\$ | Computer software<br>\$ | Total<br>\$      |
|--------------------------------|---------------------------|-----------------------------------------|------------------------------|-------------------------|-------------------------|------------------|
| <b>At 1 July 2010</b>          |                           |                                         |                              |                         |                         |                  |
| 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> |
| <b>Year ended 30 June 2011</b> |                           |                                         |                              |                         |                         |                  |
| Opening net book amount        | 980,436                   | 8,294                                   | 534,101                      | 36,232                  | 71,224                  | 1,630,287        |
| Acquisition of subsidiary      | 14,759                    | 101,343                                 | -                            | 78,137                  | 15,141                  | 209,380          |
| Additions                      | 64,157                    | 10,231                                  | -                            | 95,413                  | 19,861                  | 189,662          |
| Disposals                      | (265)                     | (650)                                   | (23,207)                     | -                       | -                       | (24,122)         |
| Depreciation charge            | (151,128)                 | (7,124)                                 | (82,605)                     | (37,745)                | (55,635)                | (334,237)        |
| Closing net book amount        | <u>907,959</u>            | <u>112,094</u>                          | <u>428,289</u>               | <u>172,037</u>          | <u>50,591</u>           | <u>1,670,970</u> |
| <b>At 30 June 2011</b>         |                           |                                         |                              |                         |                         |                  |
| Cost or fair value             | 1,271,634                 | 174,826                                 | 661,305                      | 452,783                 | 430,771                 | 2,991,319        |
| Accumulated depreciation       | (363,675)                 | (62,732)                                | (233,016)                    | (280,746)               | (380,180)               | (1,320,349)      |
| Net book amount                | <u>907,959</u>            | <u>112,094</u>                          | <u>428,289</u>               | <u>172,037</u>          | <u>50,591</u>           | <u>1,670,970</u> |
| Consolidated                   | Plant and equipment<br>\$ | Furniture, fittings and equipment<br>\$ | Machinery and vehicles<br>\$ | Computer hardware<br>\$ | Computer software<br>\$ | Total<br>\$      |
| <b>Year ended 30 June 2012</b> |                           |                                         |                              |                         |                         |                  |
| Opening net book amount        | 907,959                   | 112,094                                 | 428,289                      | 172,037                 | 50,591                  | 1,670,970        |
| Additions                      | 13,282                    | 148,158                                 | 15,000                       | 22,042                  | 32,725                  | 231,207          |
| Disposals                      | -                         | (6,071)                                 | (59,537)                     | (1,191)                 | -                       | (66,799)         |
| Depreciation charge            | (155,339)                 | (43,138)                                | (48,126)                     | (76,599)                | (40,978)                | (364,180)        |
| Closing net book amount        | <u>765,902</u>            | <u>211,043</u>                          | <u>335,626</u>               | <u>116,289</u>          | <u>42,338</u>           | <u>1,471,198</u> |
| <b>At 30 June 2012</b>         |                           |                                         |                              |                         |                         |                  |
| Cost or fair value             | 1,284,916                 | 316,913                                 | 616,768                      | 473,635                 | 463,496                 | 3,155,728        |
| Accumulated depreciation       | (519,014)                 | (105,870)                               | (281,142)                    | (357,346)               | (421,158)               | (1,684,530)      |
| Net book amount                | <u>765,902</u>            | <u>211,043</u>                          | <u>335,626</u>               | <u>116,289</u>          | <u>42,338</u>           | <u>1,471,198</u> |

## 12 Non-current assets - Exploration and evaluation assets

### Exploration and evaluation

|                                                    | Consolidated          |                       |
|----------------------------------------------------|-----------------------|-----------------------|
|                                                    | 30 June<br>2012<br>\$ | 30 June<br>2011<br>\$ |
| <i>Exploration and evaluation</i>                  |                       |                       |
| <b>Movement:</b>                                   |                       |                       |
| Opening balance                                    | 43,278,950            | 32,102,683            |
| Expenditure incurred                               | 16,570,774            | 17,193,595            |
| Less: expenditure written off / impaired           | (252,917)             | (6,017,328)           |
| Closing balance                                    | <u>59,596,807</u>     | <u>43,278,950</u>     |
| <b>Closing balance comprises:</b>                  |                       |                       |
| Exploration and evaluation - 100% owned            | 53,315,269            | 38,640,969            |
| Exploration and evaluation phases - Joint Ventures | <u>6,281,538</u>      | <u>4,637,981</u>      |
|                                                    | <u>59,596,807</u>     | <u>43,278,950</u>     |

**13 Non-current assets - Other non-current assets**

|                | <b>Consolidated</b>     |                         |
|----------------|-------------------------|-------------------------|
|                | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                | <b>\$</b>               | <b>\$</b>               |
| Security bonds | <u>27,000</u>           | <u>27,000</u>           |
|                | <u><b>27,000</b></u>    | <u><b>27,000</b></u>    |

**14 Current liabilities - Trade and other payables**

|                  | <b>Consolidated</b>     |                         |
|------------------|-------------------------|-------------------------|
|                  | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                  | <b>\$</b>               | <b>\$</b>               |
| Trade payables   | 615,805                 | 1,707,458               |
| Accrued expenses | 415,439                 | 37,350                  |
| Credit cards     | <u>70,412</u>           | <u>(24,747)</u>         |
|                  | <u><b>1,101,656</b></u> | <u><b>1,720,061</b></u> |

**15 Current liabilities - Provisions**

|                       | <b>Consolidated</b>     |                         |
|-----------------------|-------------------------|-------------------------|
|                       | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                       | <b>\$</b>               | <b>\$</b>               |
| Employee entitlements | <u>278,850</u>          | <u>203,165</u>          |
|                       | <u><b>278,850</b></u>   | <u><b>203,165</b></u>   |

**16 Non-current liabilities - Provisions**

|                       | <b>Consolidated</b>     |                         |
|-----------------------|-------------------------|-------------------------|
|                       | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                       | <b>\$</b>               | <b>\$</b>               |
| Employee entitlements | <u>154,956</u>          | <u>96,516</u>           |
|                       | <u><b>154,956</b></u>   | <u><b>96,516</b></u>    |

## 17 Contributed equity

|                          | <b>30 June<br/>2012<br/>Shares</b> | <b>30 June<br/>2011<br/>Shares</b> | <b>30 June<br/>2012<br/>\$</b> | <b>30 June<br/>2011<br/>\$</b> |
|--------------------------|------------------------------------|------------------------------------|--------------------------------|--------------------------------|
| <b>(a) Share capital</b> |                                    |                                    |                                |                                |
| Ordinary shares          |                                    |                                    |                                |                                |
| Fully paid               | <u><b>1,821,300,404</b></u>        | <u>1,820,839,571</u>               | <u><b>105,277,581</b></u>      | <u>105,266,776</u>             |

**(b) Movements in ordinary share capital:**

| Date              | Details                                           | Number of shares            | Issue price | \$                        |
|-------------------|---------------------------------------------------|-----------------------------|-------------|---------------------------|
| 1 July 2010       | Opening balance                                   | 1,819,849,571               |             | 105,227,282               |
| 19 July 2010      | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 300,000                     | \$0.017     | 5,100                     |
| 22 December 2010  | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 180,000                     | \$0.055     | 9,900                     |
| 25 January 2011   | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 25,000                      | \$0.045     | 1,125                     |
| 25 January 2011   | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 30,000                      | \$0.084     | 2,520                     |
| 25 March 2011     | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 250,000                     | \$0.045     | 11,250                    |
| 3 June 2011       | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 135,000                     | \$0.045     | 6,075                     |
| 14 June 2011      | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 70,000                      | \$0.084     | 5,880                     |
|                   | Less: Transaction costs arising on share issues   |                             |             | (3,367)                   |
|                   | Deferred tax credit recognised directly in equity |                             |             | <u>1,011</u>              |
| 30 June 2011      | Balance                                           | <u>1,820,839,571</u>        |             | <u>105,266,776</u>        |
| 16 September 2011 | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 200,000                     | \$0.017     | 3,400                     |
| 7 October 2011    | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 200,000                     | \$0.017     | 3,400                     |
| 7 October 2011    | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | 32,500                      | \$0.084     | 2,730                     |
| 7 October 2011    | Exercise of employee options                      |                             |             |                           |
|                   | Proceeds received                                 | <u>28,333</u>               | \$0.045     | <u>1,275</u>              |
| 30 June 2012      | Balance                                           | <u><b>1,821,300,404</b></u> |             | <u><b>105,277,581</b></u> |

## 17 Contributed equity (continued)

### (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.

### (d) Options and rights

Information relating to the Flinders Mines Limited Employee Option and Incentive Rights Plans, including details of options and rights issued, exercised and lapsed during the financial year and options and rights outstanding at the end of the financial year, is set out in note 29.

### (e) Capital risk management

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

Management effectively manages the Group's capital by assessing the Group'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 Group since the prior year. This strategy is to ensure that the Group has no debt.

## 18 Reserves and retained losses

| <b>Consolidated</b> |                |
|---------------------|----------------|
| <b>30 June</b>      | <b>30 June</b> |
| <b>2012</b>         | <b>2011</b>    |
| <b>\$</b>           | <b>\$</b>      |

### (a) Reserves

|                                                    |                         |                |
|----------------------------------------------------|-------------------------|----------------|
| Available-for-sale investments revaluation reserve | <b>(241,170)</b>        | (150,909)      |
| Share-based payments                               | <b><u>1,553,904</u></b> | <u>789,697</u> |
|                                                    | <b><u>1,312,734</u></b> | <u>638,788</u> |

### Movements:

|                                                           |                         |                  |
|-----------------------------------------------------------|-------------------------|------------------|
| <i>Available-for-sale investments revaluation reserve</i> |                         |                  |
| Opening balance at 1 July                                 | <b>(150,909)</b>        | (126,895)        |
| Revaluation of financial assets (net of tax)              | <b><u>(90,261)</u></b>  | <u>(24,014)</u>  |
| Closing balance at 30 June                                | <b><u>(241,170)</u></b> | <u>(150,909)</u> |

### *Share-based payments*

|                                 |                         |                |
|---------------------------------|-------------------------|----------------|
| Opening balance at 1 July       | <b>789,697</b>          | 266,034        |
| Options issued during the year  | <b>-</b>                | 53,979         |
| Rights expensed during the year | <b>771,544</b>          | 469,684        |
| Rights expired during the year  | <b><u>(7,337)</u></b>   | <u>-</u>       |
| Closing balance at 30 June      | <b><u>1,553,904</u></b> | <u>789,697</u> |

## 18 Reserves and retained losses (continued)

### (b) Retained losses

Movements in retained losses were as follows:

|                            | <b>Consolidated</b>        |                     |
|----------------------------|----------------------------|---------------------|
|                            | <b>30 June</b>             | 30 June             |
|                            | <b>2012</b>                | 2011                |
|                            | <b>\$</b>                  | <b>\$</b>           |
| Opening balance at 1 July  | <b>(24,593,611)</b>        | (16,629,355)        |
| Net loss for the year      | <b><u>(4,936,852)</u></b>  | <u>(7,964,256)</u>  |
| Closing balance at 30 June | <b><u>(29,530,463)</u></b> | <u>(24,593,611)</u> |

### (c) Nature and purpose of reserves

#### (i) Available-for-sale reserve

Changes in the fair value of instruments, such as equities, classified as available-for-sale financial assets, are recognised in other comprehensive income, as described in note 1(j) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

#### (ii) Share-based payments reserve

The share-based payments reserve records items recognised as expenses on valuation of employee options, employee rights and options issued to external parties in consideration for goods and services rendered.

## 19 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

G D Sutherland, Managing Director

#### (iii) Non-executive directors

J D Cooper

K J Malaxos

E J Vickery

G M May, Alternate director E J Vickery

N J Smart, Alternate director for R M Kennedy

### (b) Other key management personnel

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

|             |                                            |                                  |
|-------------|--------------------------------------------|----------------------------------|
| M Rapaic    | General Manager - Project Development      | Flinders Mines Limited           |
| M Anstey    | General Manager - HSEC & HR                | Flinders Mines Limited           |
| N J Corlis  | General Manager - Business Development     | Flinders Mines Limited           |
| D W Godfrey | Chief Financial Officer/ Company Secretary | FME Exploration Services Pty Ltd |

## 19 Key management personnel disclosures (continued)

### (c) Key management personnel compensation

|                              | Consolidated<br>30 June<br>2012<br>\$ | 30 June<br>2011<br>\$ |
|------------------------------|---------------------------------------|-----------------------|
| Short-term employee benefits | 1,954,843                             | 2,008,047             |
| Post-employment benefits     | 145,585                               | 143,971               |
| Share-based payments         | <u>607,899</u>                        | <u>337,757</u>        |
|                              | <u>2,708,327</u>                      | <u>2,489,775</u>      |

Detailed remuneration disclosures are provided in sections A to D of the remuneration report on pages 7 to 10.

### (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 Group, including their personally related parties, are set out below.

#### 2012

| 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    | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| G D Sutherland | 300,000                      | -                      | -                              | -                        | 300,000                    | 300,000                | -        |
| J D Cooper     | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| K J Malaxos    | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| E J Vickery    | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| G M May        | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| N J Smart      | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| N J Corlis     | 495,000                      | -                      | -                              | -                        | 495,000                    | 495,000                | -        |
| M Rapaic       | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| M Anstey       | 200,000                      | -                      | -                              | -                        | 200,000                    | 200,000                | -        |
| D W Godfrey    | -                            | -                      | -                              | -                        | -                          | -                      | -        |

#### 2011

| 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    | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| G D Sutherland | 300,000                      | -                      | -                              | -                        | 300,000                    | 300,000                | -        |
| J D Cooper     | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| K J Malaxos    | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| E J Vickery    | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| G M May        | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| N J Smart      | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| N J Corlis     | 495,000                      | -                      | -                              | -                        | 495,000                    | 495,000                | -        |
| M Rapaic       | -                            | -                      | -                              | -                        | -                          | -                      | -        |
| M Anstey       | -                            | 200,000                | -                              | -                        | 200,000                    | 200,000                | -        |
| D W Godfrey    | -                            | 170,000                | (170,000)                      | -                        | -                          | -                      | -        |

## 19 Key management personnel disclosures (continued)

### (ii) Rights holdings

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

#### 2012

| 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    | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| G D Sutherland | 4,287,000                    | 4,116,700              | -                              | -                        | 8,403,700                  | -                      | 8,403,700 |
| J D Cooper     | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| K J Malaxos    | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| E J Vickery    | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| G M May        | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| N J Smart      | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| N J Corlis     | 1,946,000                    | 673,100                | -                              | -                        | 2,619,100                  | -                      | 2,619,100 |
| M Rapaic       | 1,850,000                    | 635,800                | -                              | -                        | 2,485,800                  | -                      | 2,485,800 |
| M Anstey       | 1,542,000                    | 567,700                | -                              | -                        | 2,109,700                  | -                      | 2,109,700 |
| D W Godfrey    | 1,541,000                    | 481,300                | -                              | -                        | 2,022,300                  | -                      | 2,022,300 |

#### 2011

| 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    | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| G D Sutherland | -                            | 4,287,000              | -                              | -                        | 4,287,000                  | -                      | 4,287,000 |
| J D Cooper     | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| K J Malaxos    | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| E J Vickery    | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| G M May        | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| N J Smart      | -                            | -                      | -                              | -                        | -                          | -                      | -         |
| N J Corlis     | -                            | 1,946,000              | -                              | -                        | 1,946,000                  | -                      | 1,946,000 |
| M Rapaic       | -                            | 1,850,000              | -                              | -                        | 1,850,000                  | -                      | 1,850,000 |
| M Anstey       | -                            | 1,542,000              | -                              | -                        | 1,542,000                  | -                      | 1,542,000 |
| D W Godfrey    | -                            | 1,541,000              | -                              | -                        | 1,541,000                  | -                      | 1,541,000 |

## 19 Key management personnel disclosures (continued)

### (iii) 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 Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

#### 2012

| Name                   | Balance at the start of the year | Received as compensation | Exercise of options | Acquired/ (disposed) | Balance at the end of the year |
|------------------------|----------------------------------|--------------------------|---------------------|----------------------|--------------------------------|
| <b>Ordinary shares</b> |                                  |                          |                     |                      |                                |
| R M Kennedy            | 31,500,000                       | -                        | -                   | -                    | 31,500,000                     |
| G D Sutherland         | 115,000                          | -                        | -                   | -                    | 115,000                        |
| J D Cooper             | 1,000,000                        | -                        | -                   | 200,000              | 1,200,000                      |
| K J Malaxos            | -                                | -                        | -                   | -                    | -                              |
| E J Vickery            | 4,700,000                        | -                        | -                   | -                    | 4,700,000                      |
| G M May                | 633,571                          | -                        | -                   | -                    | 633,571                        |
| N J Smart              | 838,095                          | -                        | -                   | -                    | 838,095                        |
| N J Corlis             | -                                | -                        | -                   | -                    | -                              |
| M Rapaic               | -                                | -                        | -                   | -                    | -                              |
| M Anstey               | -                                | -                        | -                   | -                    | -                              |
| D W Godfrey            | 338,796                          | -                        | -                   | -                    | 338,796                        |

#### 2011

| Name                   | Balance at the start of the year | Received as compensation | Exercise of options | Acquired/ (disposed) | Balance at the end of the year |
|------------------------|----------------------------------|--------------------------|---------------------|----------------------|--------------------------------|
| <b>Ordinary shares</b> |                                  |                          |                     |                      |                                |
| R M Kennedy            | 31,180,590                       | -                        | -                   | 319,410              | 31,500,000                     |
| G D Sutherland         | -                                | -                        | -                   | 115,000              | 115,000                        |
| J D Cooper             | -                                | -                        | -                   | 1,000,000            | 1,000,000                      |
| K J Malaxos            | -                                | -                        | -                   | -                    | -                              |
| E J Vickery            | 4,571,428                        | -                        | -                   | 128,572              | 4,700,000                      |
| G M May                | 633,571                          | -                        | -                   | -                    | 633,571                        |
| N J Smart              | 838,095                          | -                        | -                   | -                    | 838,095                        |
| N J Corlis             | -                                | -                        | -                   | -                    | -                              |
| M Rapaic               | -                                | -                        | -                   | -                    | -                              |
| M Anstey               | -                                | -                        | -                   | -                    | -                              |
| D W Godfrey            | 168,769                          | -                        | 170,000             | -                    | 338,769                        |

## 20 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:

| Consolidated |              |
|--------------|--------------|
| 30 June 2012 | 30 June 2011 |
| \$           | \$           |

### Grant Thornton

#### Audit and other assurance services

|                                                           |               |               |
|-----------------------------------------------------------|---------------|---------------|
| Audit and review of financial reports                     | 32,250        | 27,000        |
| Review of internal controls                               | 4,400         | -             |
| Total remuneration for audit and other assurance services | <u>36,650</u> | <u>27,000</u> |

There were no other services provided.

## 21 Contingencies

### Contingent liabilities

The Group had no known contingent liabilities as at 30 June 2012 (2011: Nil).

## 22 Commitments

### (a) Lease commitments

#### *Non-cancellable operating leases*

At 30 June 2012 the Group leased one office under a non-cancellable operating lease. This lease is due to expire within two years of the end of the 2012 financial year. On renewal, the terms of the lease will be renegotiated.

|                                                                                                                | <b>Consolidated</b>     |                         |
|----------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
|                                                                                                                | <b>30 June<br/>2012</b> | <b>30 June<br/>2011</b> |
|                                                                                                                | <b>\$</b>               | <b>\$</b>               |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: |                         |                         |
| Within one year                                                                                                | <b>317,120</b>          | 401,385                 |
| Later than one year but not later than five years                                                              | <b>331,390</b>          | 606,928                 |
| Later than five years                                                                                          | <b>-</b>                | <b>-</b>                |
|                                                                                                                | <b><u>648,510</u></b>   | <b><u>1,008,313</u></b> |

### (b) Commitments for exploration and joint venture expenditure

In order to maintain current rights of tenure to exploration tenements the Group will be required to outlay amounts totalling approximately \$2,960,000 during the year ending 30 June 2013 (2012: \$4,073,000) to meet minimum expenditure requirements.

### (c) 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 30 June 2012, the Group had \$727,700 of bank guarantees in place for these purposes (2011: \$522,700).

## 23 Related party transactions

### (a) Parent Entity

The Parent Entity within the Group is Flinders Mines Limited.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 24.

### (c) Key management personnel

Disclosure relating to key management personnel are set out in note 19.

### (d) Transactions with other related parties

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

Transactions between the Parent Entity and its wholly owned subsidiaries, which are related parties of the Parent, are eliminated on consolidation and are not disclosed in this note.

## 23 Related party transactions (continued)

There were no transactions with related parties other than those listed above during the year ended 30 June 2012.

## 24 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1(b):

| Name of entity                   | Country of incorporation | Class of shares | Equity holding* |           |
|----------------------------------|--------------------------|-----------------|-----------------|-----------|
|                                  |                          |                 | 2012<br>%       | 2011<br>% |
| FME Exploration Services Pty Ltd | Australia                | Ordinary        | 100             | 100       |
| Flinders Diamonds Pty Ltd        | Australia                | Ordinary        | 100             | 100       |
| Flinders Iron Pty Ltd            | Australia                | Ordinary        | 100             | 100       |

\* The proportion of ownership interest is equal to the proportion of voting power held.

## 25 Interests in joint ventures

The Group has the following interests in unincorporated joint ventures:

| State   | Agreement Name         | Parties                                       | Summary                                                                                                                                                                                                                                                                                                                                           | Consideration                                    |
|---------|------------------------|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| NT & SA | Maximus Agreement      | FMS and Maximus Resources Ltd (MXR)           | Under this July 2005 agreement and amending deeds MXR through the issue of shares and options has 100% non-diamond rights to the Strangways and Billa Kalina Project tenements and to EL4303 and has 100% metalliferous mineral rights to the other Adelaide Hills Project tenements. FMS has now sold the diamond rights on Billa Kalina to MXR. |                                                  |
| SA      | Copper Range Agreement | FMS and Copper Range Ltd                      | Copper Range holds a 100% interest in the metal rights for EL4368, all rights to other exploration licences in the Springfield, Jamestown and Nackara projects have reverted to FMS.                                                                                                                                                              |                                                  |
| SA      | Filsell Agreement      | FMS and IR Filsell, MA Filsell and WJ Filsell | FMS has earned 100% of the diamond rights in exploration licences EL3692 and EL3378 by expenditure of \$250,000. Agreement expired 4 September 2011.                                                                                                                                                                                              | FMS has withdrawn from this agreement.           |
| SA      | Kelaray Agreement      | FMS and Kelaray Pty Ltd                       | FMS holds 100% diamond rights to EL4401 through an October 1996 agreement between Kelaray and other parties and a subsequent March 2003 transfer agreement between the other parties and FMS.                                                                                                                                                     | FMS has withdrawn from EL4401 in September 2011. |

## 25 Interests in joint ventures (continued)

| State | Agreement Name              | Parties                                                                   | Summary                                                                                                                                                                                                                                      | Consideration                                                                                                                                       |
|-------|-----------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| 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    | Simnovic Agreement          | FMS and Amona Mining & Exploration Pty Ltd, Novec Pty Ltd and JJ Simnovic | FMS can exercise the purchase of 100% of the mineral rights in exploration licences EL3832, EL4294 and EL3434 for a cash purchase price of \$1.5 million. Option expired 27 July 2011.                                                       | FMS has withdrawn from this agreement.                                                                                                              |
| SA    | Tarcowie Agreement          | FMS and Tarcowie Phosphate Pty Ltd                                        | Tarcowie phosphate has the right to peg mining leases for phosphate on nominated small parcels of land within EL4367 and EL4368.                                                                                                             | If Tarcowie Phosphate proceeds to mine phosphate from the nominated areas Tarcowie Phosphate will pay FMS a 1% gross sales royalty.                 |
| SA    | Tasman Agreement            | FMS and Tasman Resources NL                                               | FMS has earned a 70% interest in the project area diamond rights only by expenditure of \$750,000 over a 4 year period.                                                                                                                      | Tasman have farmed-out their interest to Trafford Resources.                                                                                        |
| SA    | Tawana Orogenic Agreement   | FMS and 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.                                                                                              | Currently in dispute. FMS believe they have earned a 50% interest, which Tawana is disputing.                                                       |
| WA    | Fortescue Agreement         | FMS and 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 8 Mt mined.   |
| WA    | Maximus Canegrass Agreement | FMS and MXR                                                               | FMS purchased 100% of the mineral rights to the Canegrass Project for a cash plus share consideration of \$1.3 million. The 'Corporate Group' retains a 10% free carried interest to specified graticular blocks within E58/358 and E58/359. | FMS must pay MXR a 2% net smelter royalty on any future mineral production from Canegrass project tenements.                                        |
| WA    | Prenti Royalty Agreement    | FMS and Prenti Exploration Pty Ltd                                        | FMS has earned a 100% interest in mining licence ML47/1451 and exploration licences E47/1011, E47/1016 and E47/1306 by spending \$2 million on exploration.                                                                                  | Prenti retain a right to a 5% net profit production royalty on all non iron-ore commodities.                                                        |

## 26 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

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

|                                                                                                        | Consolidated<br>30 June<br>2012<br>\$ | 30 June<br>2011<br>\$ |
|--------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------|
| Profit/(loss) for the year                                                                             | (4,936,852)                           | (7,964,256)           |
| Depreciation                                                                                           | 211,842                               | 184,123               |
| Non-cash employee benefits expense - share-based payments                                              | 764,208                               | 523,663               |
| Deferred tax asset written off                                                                         | 38,683                                | 11,303                |
| Exploration expenditure written off                                                                    | 252,917                               | 462,411               |
| Impairment of exploration expenditure                                                                  | -                                     | 5,554,917             |
| Net loss on disposal of non-current assets                                                             | 37,308                                | 23,502                |
| <i>Change in operating assets and liabilities (net of effects from purchase of controlled entity):</i> |                                       |                       |
| Decrease/(increase) in trade and other receivables                                                     | 661,232                               | 213,717               |
| (Increase)/decrease in other current assets                                                            | (185,407)                             | (13,540)              |
| (Decrease)/increase in trade payables and accruals                                                     | (286,192)                             | (666,065)             |
| Increase/(decrease) in provisions                                                                      | 134,125                               | 28,943                |
| Net cash (outflow) from operating activities                                                           | <u>(3,308,136)</u>                    | <u>(1,641,282)</u>    |

## 28 Earnings per share

|                                                                                                                   | Consolidated<br>30 June<br>2012 | 30 June<br>2011      |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>Basic earnings per share</b>                                                                                   |                                 |                      |
| Loss attributable to the ordinary equity holders                                                                  | (4,936,852)                     | (7,964,256)          |
| Weighted average number of ordinary shares outstanding during the year used to calculate basic earnings per share | <u>1,821,187,228</u>            | <u>1,820,330,653</u> |
| Basic earnings per share (cents)                                                                                  | <u>(0.2711)</u>                 | <u>(0.4375)</u>      |

### 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 \$4,936,852 this financial year (2011: \$7,964,256), the options have not been included in the determination of earnings per share. Details relating to the options are set out in note 29.

## 29 Share-based payments

### (a) Employee Option Plan

The following options arrangements existed at 30 June 2012:

The Flinders Mines Limited Employee Share Option Plan enables the Board, at its discretion, to issue options 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. The options granted under the plan carry 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.

## 29 Share-based payments (continued)

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.

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.

On 11 February 2011 320,000 options were issued to employees under the Company's employee option plan. The options are exercisable at 8.5 cents on or before 30 June 2015.

Set out below is a summary of the options granted under the plan:

|                                      | Number of<br>options | Weighted<br>average<br>exercise price<br>\$ |
|--------------------------------------|----------------------|---------------------------------------------|
| <b>2012</b>                          |                      |                                             |
| Outstanding at beginning of the year | 2,592,499            | 0.052                                       |
| Granted                              | -                    | -                                           |
| Exercised                            | (460,833)            | 0.023                                       |
| Expired                              | (150,000)            | 0.068                                       |
| Outstanding at end of the year       | <u>1,981,666</u>     | <u>0.058</u>                                |
|                                      |                      |                                             |
|                                      | Number of<br>options | Weighted<br>average<br>exercise price<br>\$ |
| <b>2011</b>                          |                      |                                             |
| Outstanding at beginning of the year | 2,792,499            | 0.046                                       |
| Granted                              | 490,000              | 0.071                                       |
| Exercised                            | (690,000)            | 0.053                                       |
| Expired                              | -                    | -                                           |
| Outstanding at the end of the year   | <u>2,592,499</u>     | <u>0.052</u>                                |

The options outstanding at 30 June 2012 had a weighted average exercise price of \$0.058 and a weighted average remaining contractual life of 22 months. Exercise prices range from \$0.045 to \$0.085 in respect of options outstanding at 30 June 2012.

### *Fair value of options granted*

There were no options granted during the year ended 30 June 2012. The fair value of options 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.

### **(b) Employee Incentive Rights Plan**

The following incentive rights arrangements existed at 30 June 2012:

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.

On 1 July 2010 16,196,000 rights were issued to employees under the Company's Employee Incentive Rights Plan. The rights have a fair value of 8.7 cents per right and expire on 30 June 2013, with a vesting period of three years.

On 1 July 2011 5,304,700 rights were issued to employees under the Company's Employee Incentive Rights Plan. The rights have a fair value of 11.5 cents per right and expire on 30 June 2014, with a vesting period of three years.

On 1 December 2011 a further 1,825,000 rights were issued to the Managing Director under the Company's Employee Incentive Rights Plan following shareholder approval at the Annual General Meeting. The rights have a fair value of 8.7 cents per right and expire on 30 June 2013, with a vesting period of three years.

Total number of Employee Incentive Rights at 30 June 2012 is 23,072,700 (2011: 15,976,000).

## 29 Share-based payments (continued)

Set out below is a summary of the rights granted under the plan:

|                                      | <b>Number of<br/>rights</b> |
|--------------------------------------|-----------------------------|
| <b>2012</b>                          |                             |
| Outstanding at beginning of the year | 15,976,000                  |
| Granted                              | 7,129,700                   |
| Exercised                            | -                           |
| Expired / lapsed                     | <u>(33,000)</u>             |
| Outstanding at end of the year       | <u>23,072,700</u>           |
| <b>2011</b>                          |                             |
| Outstanding at beginning of the year | -                           |
| Granted                              | 16,196,000                  |
| Exercised                            | -                           |
| Expired / lapsed                     | <u>(220,000)</u>            |
| Outstanding at the end of the year   | <u>15,976,000</u>           |

### 30 Parent Entity financial information

#### (a) Summary financial information

The individual financial statements for Flinders Mines Limited (the Parent Entity) show the following aggregate amounts:

|                                        | parent entity         |                       |
|----------------------------------------|-----------------------|-----------------------|
|                                        | 30 June<br>2012<br>\$ | 30 June<br>2011<br>\$ |
| <b>Statement of financial position</b> |                       |                       |
| Current assets                         | 18,005,678            | 38,533,870            |
| Non-current assets                     | <u>61,081,544</u>     | <u>45,035,278</u>     |
| Total assets                           | <u>79,087,222</u>     | <u>83,569,148</u>     |
|                                        |                       |                       |
| Current liabilities                    | 1,622,643             | 2,086,449             |
| Non-current liabilities                | <u>112,851</u>        | <u>33,599</u>         |
| Total liabilities                      | <u>1,735,494</u>      | <u>2,120,048</u>      |
|                                        |                       |                       |
| Net Assets                             | <u>77,351,728</u>     | <u>81,449,100</u>     |
|                                        |                       |                       |
| <i>Shareholders' equity</i>            |                       |                       |
| Contributed equity                     | 105,277,580           | 105,266,776           |
| Reserves                               | 1,312,734             | 638,788               |
| Retained losses                        | <u>(29,238,586)</u>   | <u>(24,456,464)</u>   |
|                                        | <u>77,351,728</u>     | <u>81,449,100</u>     |
|                                        |                       |                       |
| <b>(Loss) for the year</b>             | <u>(4,782,122)</u>    | <u>(7,827,109)</u>    |
|                                        |                       |                       |
| <b>Total comprehensive income</b>      | <u>(4,872,383)</u>    | <u>(7,851,123)</u>    |

#### (b) Guarantees entered into by the parent entity

The Parent Entity did not provide any guarantees during the year ended 30 June 2012 (2011: Nil).

#### (c) Contingent liabilities of the parent entity

The Parent Entity did not have any known contingent liabilities as at 30 June 2012 (2011: Nil). For information about guarantees given by the Parent Entity, please see above.

#### (d) Contractual commitments

As at 30 June 2012, the Parent Entity had no contractual commitments for the acquisition of property, plant or equipment (2011: Nil).

In the directors' opinion:

- (a) the financial statements and notes set out on pages 21 to 57 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 Group's financial position as at 30 June 2012 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 comply with International Financial Reporting Standards as confirmed in note 1(a).

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  
20 September 2012

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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 "Entity"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Entity and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors responsibility for the financial report**

The Directors of the Entity are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. 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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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 consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards 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**

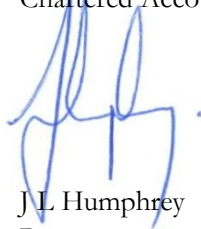
We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The Directors of the Entity are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Flinders Mines Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP  
Chartered Accountants



J.L. Humphrey  
Partner

Adelaide, 20 September 2012