Flinders Exploration Limited

ABN 51 140 351 033

Financial report
for the period ended 30 June 2010

Flinders Exploration Limited ABN 51 140 351 033
Financial report - 30 June 2010

Contents

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

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

Flinders Exploration Limited
62 Beulah Road
Norwood SA 5067

Registered postal address is:

Flinders Exploration Limited
PO Box 3126
Norwood SA 5067

The financial statements were authorised for issue by the directors on 28 October 2010. The directors have the power to amend and reissue the financial statements.

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

Directors report

Your directors present their report on the Company (referred to hereafter as the Company), for the financial period ended 30 June 2010.

Directors
The following persons were directors of Flinders Exploration Limited during the whole of the financial period and up to the date of this report:

David Tucker (since 26 November 2009)
Kevin John Anson Wills (since 26 November 2009)
Andrew Joseph Andrejewskis (since 26 November 2009)

The directors have been in office since incorporation on 26 November 2009, to the date of this report unless otherwise stated.

Principal activities
Since incorporation, on 26 Novermber 2009, the Company has been in the process of working towards a successful Initial Public Offering (IPO) on the Australian Securities Exchange (ASX) in late 2010.

Once Flinders Exploration Limited has successfully listed on the ASX, the principal activities will be mineral exploration and development.

Operating results and financial position
The net result of operations for the financial period was a loss of ($62,812).

Dividends - Flinders Exploration Limited
There were no dividends declared or paid during the period.

Review of operations
The Company is seeking to raise $5,000,000 by the offer of 25,000,000 shares at a price of 20 cents per share in an IPO. Through a Joint Venture Agreement negotiated with Flinders Mines Limited (FMS), the Company will acquire an initial interest of 51% in a raft of tenements with the ability to increase this interest to 75% over those tenements which the Company considers most prospective.

All activities for the reporting period have been directed towards preparations for the IPO.

Significant changes in the state of affairs
The Company was incorporated on 26 November 2009.

Events subsequent to balance date
There has not arisen in the interval between the end of the financial period, and the date of this report any item, transaction or event of material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of Flinders Exploration Limited, the results of those operations, or the state of affairs of Flinders Exploration Limited in future financial years.

Future developments, prospects and business strategies
Further information on likely developments in the operations of the Company and the expected results of operations have not been included in this financial report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

Information on directors
David Tucker BSc, PhD, MGSA, ACTASEG, MAusIMM. *Managing Director.*
Experience and expertise
Dr Tucker is a geophysicist with 37 years experience in minerals and petroleum exploration, mostly in Australia and Africa.

Dr Tucker gained experience in base metals exploration with CRA Exploration Limited (now RTZ) and later as a geophysical consultant for major companies including CRA Ltd and Mount Isa Mines Ltd. He has worked as consultant in Australia and Canada in base and precious metals exploration and later as principal in a petroleum venture in South Australia. From 1995 to 1999 he was Managing Director of Kalahari Mining N.L., an exploration company that was active in base metals and gold exploration in Namibia and Botswana.

He has worked at various times for the Commonwealth Government, ultimately a Principal Research Scientist for the Bureau of Mineral Resources (now Geoscience Australia), as well as consulting for the South Australian Department of Mines and Energy (now Primary Industries and Resources South Australia).

Interests in shares and options
3,000,000 ordinary shares in Flinders Exploration Limited.
3,000,000 options over ordinary shares in Flinders Exploration Limited.

Kevin John Anson Wills BSc, PhD, ARSM, FAusIMM. *Non-Executive Director.*
Experience and expertise
Dr Wills is a geologist with 36 years experience in multi commodity mineral exploration including feasibility studies and mine operations in Australasia. Dr Wills spent seven years with CRA Exploration Pty Ltd, the highlight of which was involvement with the location and evaluation of the Argyle diamond deposit. Later, with Penarroya Australia Pty Ltd, his work led to an expansion of reserves at Thalanga and the discovery of the Waterloo base metals deposit.

In the late 1980s, Dr Wills was exploration manager with Metana Minerals NL. He built up a successful exploration team which extended known gold ore bodies and made new discoveries in the Murchison Region of Western Australia. In the early 1990s Dr Wills was regional exploration manager with Dominion Mining Limited, based in Adelaide. His work on the Gawler Craton led to the development of a calcrete sampling technique which, later on, was instrumental in the Challenger gold discovery.

Dr Wills was the founding former Managing Director of Flinders Mines Limited (FMS), who discovered the 658 million tonne Blacksmith iron ore deposit in the Pilbara Region of Western Australia which is currently the subject of a pre-feasibility study. He recently resigned from FMS to take up a position in minerals research and teaching at the University of Adelaide. He is an Associate of the Royal School of Mines, past Chairman of the Adelaide banch and a Fellow of the Australian Institute of Mining and Metallurgy and is the originator and convenor of the annual South Australian Explorers Conference.

Interests in shares and options
3,000,000 ordinary shares in Flinders Exploration Limited.
1,500,000 options over ordinary shares in Flinders Exploration Limited.

Andrew Joseph Andrejewskis BSc, Dip B Admin, FAIM, FAusIMM (CP Man). *Non-Executive Chairman.*
Experience and expertise
Mr Andrejewskis has more than 43 years experience in the resources industry and in government. He has held CEO Board positions he resources industry and in government. He has held CEO and Board positions in resources companies covering projects in Australia and overseas. He is a past Director-General/CEO of Mines & Energy SA for the South Australian Government, and Director - Petroleum Development for the Northern Territory Government. Mr Andrejewskis was previously Managing Director of SAPEX Limited and brings a strong range of experience in areas of management, government, technical, commercial and administration.

Mr Andrejewskis is a Fellow of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Management.

Special responsibilities
Chairman of the Board.

Interests in shares and options
3,000,000 ordinary shares in Flinders Exploration Limited.
1,500,000 options over ordinary shares in Flinders Exploration Limited.

Information on directors (continued)
Company Secretary
David Wayne Godfrey BCom (Fin), GradDipAcc, ASA, FFin, CFTP (Snr), MAICD.
Experience and expertise
Mr Godfrey has more than 25 years experience in the resources and finance industries and is a member of Australian Society of CPAs, Chartered Secretaries Australia, Australian Institute of Company Directors and a Fellow of the Financial Services Institute. He has previously held senior finance roles in major corporations and for the Treasury of New Zealand and has served as secretary of numerous publicly listed and subsidiary companies for the Normandy Mining Limited Group, Newmont Australia Limited Group and Uranium Exploration Australia Limited. He has been the Company Secretary and Chief Financial Officer since incorporation.

Interests in shares and options
375,000 ordinary shares in Flinders Exploration Limited.
750,000 options over ordinary shares in Flinders Exploration Limited.

Meetings of directors
During the financial period, 9 meetings of directors were held. Attendances by each director during the period were as follows:

	Full meetings of directors		Audit committee meetings	
	A	**B**	**A**	**B**
David Tucker	9	9	-	-
Kevin John Anson Wills	9	9	-	-
Andrew Joseph Andrejewskis	9	9	-	-

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 period

Environmental regulation
The Company's operations are not regulated by any significant environmental regulation under under a law of the Commonwealth or of a state or territory.

Indemnification and insurance of officers
The Company is required to indemnify the Directors and other Officers of the company against any liabilities incurred by the Directors and Officers that may arise from their position as Directors and Officers of the Company. No costs were incurred during the year pursuant to this indemnity.

The Company has entered into deeds of indemnity with each Director whereby, to the extent permitted by the Corporations Act 2001, the Company agreed to indemnify each Director against all loss and liability incurred as an officer of the Company, including all liability in defending any relevant proceedings.

Proceedings On Behalf of Company
No person has applied for leave of Court under section 237 of the Corporations Act 2001 to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the financial period.

Non-Audit Services
The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision on non-audit services during the period is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

There were no fees for non-audit services paid/ payable to the external auditors during the period ended 30 June 2010.

Share options

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

Date options granted	Expiry date	Issue price of shares	Number under option
15 December 2009	30 November 2014	$0.40	9,875,000
			9,875,000

Auditor's Independence Declaration

The lead auditor's independence declaration for the period ended 30 June 2010 has been received and can be founc on page 5.

Dated at Adelaide this 28th day of October 2010 and signed in accordance with a resolution of the Directors.

Andrew J Andrejewskis
Director

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF FLINDERS EXPLORATION LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Flinders Exploration Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Director – Audit & Assurance

Adelaide, 28 October 2010

	Notes	2010 $
Revenue from continuing operations	3	**6,753**
Marketing expense		**(55,167)**
Administrative expense		**(10,018)**
(Loss) before income tax		**(58,432)**
Income tax expense	4	**(4,380)**
(Loss) for the period	11	**(62,812)**
Other comprehensive income		**-**
Total comprehensive income for the period		**(62,812)**
Total comprehensive income for the period is attributable to:		
Owners of Flinders Exploration Limited		**(62,812)**
		(62,812)

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

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

	Notes	2010 $
ASSETS		
Current assets		
Cash and cash equivalents	6	**296,791**
Trade and other receivables	7	**19,917**
Other assets	8	**121,121**
Total current assets		**437,829**
Non-current assets		
Total non-current assets		**-**
Total assets		**437,829**
LIABILITIES		
Current liabilities		
Trade and other payables	9	**9,111**
Total current liabilities		**9,111**
Non-current liabilities		
Total non-current liabilities		**-**
Total liabilities		**9,111**
Net assets		**428,718**
EQUITY		
Contributed equity	10	**491,530**
Retained earnings	11	**(62,812)**
Capital and reserves attributable to owners of Flinders Exploration Limited		**428,718**
Total equity		**428,718**

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

	Notes	Ordinary shares $	Retained earnings $	Total equity $
Balance at 1 July 2009		**-**	**-**	**-**
Total comprehensive income for the period				
Profit/ (loss) for the period	11	-	(62,812)	(62,812)
Transactions with owners in their capacity as owners:				
Contributions of equity	10	501,750	-	501,750
Transaction costs (net of tax)	10	(10,220)	-	(10,220)
Balance at 30 June 2010		**491,530**	**(62,812)**	**428,718**

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

	Notes	2010 $
Cash flows from operating activities		
Interest received		**6,753**
Payments to suppliers and employees (inclusive of goods and services tax)		**(197,112)**
Net cash inflow (outflow) from operating activities	5	**(190,359)**
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities		**501,750**
Transaction costs		**(14,600)**
Net cash inflow (outflow) from financing activities		**487,150**
Net increase (decrease) in cash and cash equivalents		**296,791**
Cash and cash equivalents at the beginning of the financial period		**-**
Cash and cash equivalents at end of period	6	**296,791**

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRS
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Flinders Exploration Limited complies with International Financial Reporting Standards (IFRS).

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

Critical accounting estimates
The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best availbale current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and from within the Company.

Exploration and evaluation expenditure
The Company's policy for exploration and evaluation is discussed in note 1(m). 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 income statement.

(b) Operating segments

The Directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decisions maker (the Board) in allocating resources and have concluded that at this time there are no separately identifiable segments.

(c) Revenue recognition

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

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

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

1 Summary of significant accounting policies (continued)

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

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

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

(e) Cash and cash equivalents

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 six months, less any bank overdrafts.

(f) Trade receivables

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

(g) Investments and other financial assets

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

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

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

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

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

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

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

1 Summary of significant accounting policies (continued)

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

If there is evidence of impairment for any of the Company'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.

(h) Key estimates

Impairment
The Company assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-inuse calculations performed in assessing recoverable amounts incorporate a number of key estimates.

(i) Plant and equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are 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 seperate assets as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation
The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the Company, commencing from the time the asset is held ready for use. The depreciation rates used for plant and equipment are from 12.5 to 40%.

(j) Trade and other payables

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

(k) Employee benefits

(i) Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick 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 and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

1 Summary of significant accounting policies (continued)

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

(l) Contributed equity

Ordinary shares are classified as equity.

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

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

(m) Exploration and evaluation expenditure

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

- the costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
- exploration and/or evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

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

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

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.

(n) Goods and Services Tax (GST)

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

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

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

(o) Equity settled compensation

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 by using Black-Scholes pricing model. The cost is recognised as an expense in the statemenet of financial performance with a corresponding increase in the share option reserve or issued capital when the options or shares are issued.

1 Summary of significant accounting policies (continued)

Where the grant date and the vested date are different, the total expenditure will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the terms and conditions.

(p) New accounting standards and interpretations

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

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

AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).
These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has not yet determined the potential impact on the financial statements. The changes made to accounting requirements include:

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

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).
This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Company.

AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).
These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.

AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).
These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Company.

AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).
These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Company.

1 Summary of significant accounting policies (continued)

AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).
These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Company.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).
This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Company.

AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).
This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a firsttime adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Company.

AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).
This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. These amendments are not expected to impact the Company.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).
This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Company.

2 Financial risk management

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

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

The Company's financial instruments consist of deposits with banks, accounts receivable and accounts payable.

The Company holds the following financial instruments:

	2010 $
Financial assets	
Cash and cash equivalents	**296,791**
Trade and other receivables	**19,917**
	316,708
Financial liabilities	
Trade and other payables	**9,111**
	9,111

(a) Market risk

(i) Foreign exchange risk
The Company is not exposed to foreign exchange risk.

(ii) Price risk
The Company is not exposed to any material price risk.

(iii) Cash flow and fair value interest rate risk
Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted interest rates on classes of financial assets and financial liabilities. Interest rate risk is managed by the Company with the use of rolling short-term deposits. The Company has no long term financial liabilities upon which it pays interest.

(b) Credit risk

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

(c) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in settling it's debts or otherwise meeting it's obligations. The Company manages liquidity risk by monitoring cash flows and ensuring that adequate funds are available to meet cash demands.

3 Revenue

	2010 $
From continuing operations	
Interest received	6,753
	6,753

4 Income tax expense

	2010 $
Current tax (expense)/ benefit	(4,380)
	(4,380)

	2010 $
(a) Numerical reconciliation of income tax expense to prima facie tax payable	
Profit from continuing operations before income tax expense	(58,432)
Tax at the Australian tax rate of 30%	(17,530)
Add:	
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:	
Recognition of timing differences not brought to account	13,150
Income tax (expense)/ benefit	(4,380)

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

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

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

	2010 $
Balance per statement of cash flows	296,791
	296,791

(b) Reconciliation of net cash inflow (outflow) from operating activities to profit (loss)

	2010 $
Profit for the year	**(62,812)**
Tax effect on transaction costs	4,380
Changes in operating assets and liabilities	
Decrease/ (increase) in trade and other receivables	(141,038)
Increase/ (decrease) in trade and other payables	9,111
Net cash inflow (outflow) from operating activities	**(190,359)**

6 Current assets - Cash and cash equivalents

	2010 $
Cash at bank	296,791
	296,791

(a) Cash at bank and on hand

The deposits are bearing an average interest rate of 3.75%.

7 Current assets - Trade and other receivables

	2010 $
Net trade receivables	
GST paid on purchases	19,917
	19,917

(a) Past due but not impaired

As of 30 June 2010, there are no material trade and other receivables that are considered to be past due and impaired.

8 Current assets - Other assets

	Parent entity 2010 $
Prepaid listing costs	121,121
	121,121

9 Current liabilities - Trade and other payables

	2010 $
Trade creditors	9,111
	9,111

10 Contributed equity

	2010 Shares	2010 $
(a) Share capital		
Ordinary shares		
Seed capital	4,850,000	485,000
Promotional Capital	16,750,000	16,750
Total equity	**21,600,000**	**501,750**

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$
1 July 2009	Opening balance	-		-
	Seed capital	4,850,000	$0.10	485,000
	Promotional capital	16,750,000	$0.001	16,750
	Less: Transaction costs			(10,220)
30 June 2010	Balance	21,600,000		491,530

(c) Capital risk management

The Company has no debt capital. There are no externally imposed capital requirements.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year. This strategy is to ensure that the Company has no debt.

11 Retained earnings

Retained earnings

Movements in retained earnings were as follows:

	2010 $
Balance as at 1 July 2009	-
Net profit/ (loss) for the period	(62,812)
Balance as at 30 June 2010	(62,812)

12 Key management personnel disclosures

(a) Directors

The following persons were directors of Flinders Exploration Limited during the financial period:

(i) Chairman - non-executive
A J Andrejewskis

(ii) Directors
D Tucker

(iii) Non-executive directors
K J A Wills

(b) Other key management personnel

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

Name	Position	Employer
D W Godfrey	Chief Financial Officer/ Company Secretary	FME Exploration Services Pty Ltd

There were no payments to key management personnel during the period.

13 Remuneration of auditors

During the period, 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:

	Parent entity 2010 $
(a) Grant Thornton	
Audit and review of financial reports	**5,000**
Total auditors' remuneration	**5,000**

14 Expenditure commitments and contingencies

Exploration expenditure

Subject to a successful Initial Public Offering (IPO), pursuant to a Joint Venture agreement entered into with Flinders Mines Limited, dated 3 May 2010, the Company is required to keep the tenements in good standing ("Minimum Obligation"). It is difficult to reliably estimate the Minimum Obligation given to the nature of the tenements, the timing and magnitude of the forecast exploration activity.

In addition to the Minimum Obligation above, the Joint Venture Agreement provides that to become entitled to 51% of the rights of diamonds in respect to the Pilbara tenements and 51% of all non iron ore mineral deposits in respect to all other tenements, the Company is required to spend $3.5 million on exploration expenditure ("Earning Obligation"). This exploration expenditure must be expended within 2 years of the commencement date. The Company has the option of increasing its interest by a further 24% by spending an additional $2.5 million on exploration expenditure within a further year ("additional Earning Obligation").

Initial public offering

Expenses associated with the Offer (including legal advisory, legal, accounting, listing and administrative fees as well as printing, travel and other expenses) which are estimated to be $884,000, of which $625,975 will be directly offset against share capital ($438,183 net of tax) and $258,025 will be recognised through the statement of comprehensive income.

15 Related party transactions

There have been no transactions with related parties as at the date of this report.

16 Events occurring after the reporting period

No circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

17 Going concern

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

The cash flow projections of the Company indicate it is reliant on further capital raisings either through seed capital and/or an initial public offer to meet its expenditure commitments.

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 22 are in accordance with the *Corporations Act 2001,* inc
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable,and
(c) The financial statements also comply with International Reporting Standards as discussed in note 1.

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

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

Andrew Joseph Andrejewskis
Director

Adelaide
28 October 2010

Grant Thornton

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FLINDERS EXPLORATION LIMITED

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

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

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

Auditor's responsibility Cont

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 Exploration Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the period ended on that date; and

  ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, attention is drawn to Note 17 – Going Concern Basis of Accounting to the financial statements. The cashflow projections of the company indicate it is reliant on further capital raisings. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial report has been prepared on the basis of going concern.

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

Material uncertainty regarding continuation as a going concern Cont

The company will require additional funds from existing shareholders or through completion of the proposed initial public offer for the continued development of their working capital.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Director – Audit & Assurance

Adelaide, 28 October 2010